THE FREEMAN

IDEAS ON LIBERTY

The Real Case Against Taxes

Private Property Rights: An Endangered Species

Building a Barn

The Message from Eastern Europe

MAY 1990

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A New Service For People On The Go!

THE FREEMAN on Tape/1990

A monthly audio magazine featuring approximately 60 minutes of engaging listening — professionally narrated and produced for your educational enjoyment.

INTRODUCTORY OFFER
12 TAPES FOR ONLY $59.95*

Each month subscribers receive a new issue of **"The Freeman on Tape"** -- 12 total, January through December 1990. Side one will feature at least one full article and one or two short items from the current issue of **The Freeman.** Side two will feature classic articles from past FEE releases.

FREE TAPE BONUS — ORDER NOW!

While supply lasts, you will receive two bonus tapes — presentations made at the Conference on Freedom and Leonard E. Read Society Inaugural Dinner, 1989:

- Award-winning author Bob Bidinotto on "Crime and Consequences in a Free Society"
- CBS "Spectrum" commentator M. Stanton Evans on "Journalism in a Free Society"
- FEE President Bruce M. Evans on "A Vision of Liberty"

1990 OFFERINGS TO DATE

January
"Alaska's Other Oil Spill"
Stephen Jackstadt & Dwight Lee
"Not Yours to Give"
Davy Crockett

February
"The Writings of Adam Smith"
William B. Irvine
"The Other Side of Adam Smith"
Julio H. Cole
"The Case for Economic Freedom"
Benjamin A. Rogge

March
"Soviet Economic Reforms: An Inside Perspective"
Yuri N. Maltsev
"The ABC of a Market Economy"
Henry Hazlitt
"Inflation in One Page"
Henry Hazlitt

April
"The Advance Guard of Freedom"
Andrew E. Barniskis
"Let the Market Protect Consumer Safety"
John Hood
"Isaiah's Job"
Albert Jay Nock

*Single tapes may be ordered for only $9.95 each. FEE pays postage on prepaid orders.

METHODS OF PAYMENT

- Check or money order payable to The Foundation for Economic Education.
- Credit card -- VISA or MasterCard. Please give your full credit card number, expiration date, and signature.

ORDER TODAY

The Foundation for Economic Education
30 South Broadway
Irvington-on-Hudson, NY 10533

Phone: (914) 591-7230
FAX: (914) 591-8910

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

CONTENTS
MAY
1990
VOL. 40
NO. 5

164 Private Property Rights: An Endangered Species
Paul D. Kamenar
Private property rights and economic development are rapidly succumbing to bureaucratic regulation in the name of the environment.

167 The Social Role of Private Property Rights
Gene Smiley
Ownership is the bond that brings peace and stability.

169 Saving a Forest: What Can We Do?
Michael Reed
Refrain from "neighborly" coercion and seek peaceful solutions.

172 Building a Barn
Hannah Lapp
An industrious family of 13 works together to expand their dairy farm.

176 *Freeman* Interview: Wan Runnan
Daniel R. Pruzin
An exiled Chinese entrepreneur speaks candidly of his work with the pro-democracy movement.

183 The Real Case Against Taxes
James L. Payne
Looking beyond the economic arguments against tax-and-spend programs.

185 Eastern Europe: The Economic Stakes Are High
Gary V. Small
The impact of the possible emergence of a capitalist Eastern Europe.

187 The Message from Eastern Europe
William H. Peterson
Countering the forces of soft socialism.

192 John Arbuckle: Entrepreneur, Trust Buster, Humanitarian
Clayton A. Coppin
Remembering an innovative and enterprising American.

196 *Roger and Me* and Free Enterprise
James L. Doti
A film review.

198 Book Reviews
John Chamberlain reviews *The Examined Life* by Robert Nozick. Also featured: *A Call to Civic Service: National Service for Country and Community* by Charles C. Moskos.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President of The Board: Bruce M. Evans
Vice-President: Robert G. Anderson
Senior Editors: Beth A. Hoffman, Brian Summers
Contributing Editors: Bettina Bien Greaves, Edmund A. Opitz, Paul L. Poirot
Copy Editor: Deane M. Brasfield

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Ridgway K. Foley, Jr., vice-chairman; Paul L. Poirot, secretary; Don L. Foote, Treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $15.00 a year is required to cover direct mailing costs.

Copyright © 1990 by The Foundation for Economic Education, Inc. Printed in the U.S.A. Permission is granted to reprint any article in this issue except "Building a Barn" and "*Freeman* Interview: Wan Runnan," provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1971 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

FAX: (914) 591-8910

PERSPECTIVE

Toward Argentine Freedom

The complete re-establishment of the right to property and respect for contracts requires the elimination of the official organs of control of prices, exchanges, schedules, and rates of interest, the liquidation of the state banks, the annulment of taxes on profits and assets, the privatization of the subsoil, and removal of the regulations on the use of land. The market in all useful activities should be opened to competition without discrimination. Trade with monies from taxes should be prohibited. Government would then be limited to protecting the life and property of the country's inhabitants.

If legislative action were to take this form, the black markets would soon disappear, fugitive capital would return without fear of reprisals, institutionalized begging would cease to exist, fiscal privileges would automatically be extinguished, and national reconciliation would become a fact.

—MEIR ZYLBERBERG,
writing in *La Prensa* (Buenos Aires, Argentina),
September 11, 1989

The Banking Crisis

"The American financial system was fashioned by legislators and is regulated by regulators who together created a cartel that is crumbling under the weight of its own contradictions. The system rests on government force, rather than voluntary cooperation. Enmeshed in countless laws and regulations, it was unable to cope with the rampant inflation of the 1970s, and the globalization of capital markets during the 1980s. . . .

"Most policymakers are resisting the only rational conclusion that can be drawn: the time has come to dismantle the financial cartel of which the S&Ls are an integral part. It is an aberration and abomination. If a cartel structure, which restricts competition and divides the market, does not function satisfactorily, and inflicts painful losses on the underwriter, it is reasonable and just that it should be abolished. When all expedients of the cartel system have failed, we may try freedom."

—HANS F. SENNHOLZ,
"The Savings and Loan Bailout:
Valiant Rescue or Hysterical Reaction?"

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

American Science

I have seen science in operation in many countries. One strength of American science is the high level of independence given to young people, who have the freedom to join the system, cooperate, and compete with their fellow scientists, and be judged by their peers. On the other hand, in societies that have strong central planning of science, the positions of power are fewer and more important, and the incentives to act politically to advance one's career are very strong. As a consequence, people are corrupted by politicking and distracted from producing good science. Another enormous advantage in Western science, particularly in comparison to the socialist countries, is the flourishing of small companies that can rapidly provide the chemicals and the tools that are needed for the constantly changing interests of scientists.

—BRUCE N. AMES, Chairman
Department of Biochemistry
University of California at Berkeley

How to Sustain Agriculture

The only really sustainable agriculture is one based on private control of the means of production and prices set in the marketplace. Prices set in the political arena teach us farmers to think as indecisive dependents; prices set in the marketplace teach us to think and act as responsible and independent businessmen.

Farmer addiction to Federal handouts is dangerously high and even now may not be terminated without political disruption. The direction taken by U.S. agriculture must undergo dramatic change if we are not to completely lose private control of land use in this country.

—GERARD BOURGEOIS
a dairy farmer in Morris, New York

Decontrol in India

When Rajiv Gandhi began accelerating the liberalization of the economy in 1985, there was an outcry from the Indian "left" that he was selling the common man down the river to rapacious businessmen who needed to be held in check by a multitude of controls. Even moderate voices opined that liberalization would help economic growth, but skew the distribution of income in favor of the business class . . . .

Three and a half years down the road, it is possible to sit back and review the evidence. And the bottom line is that liberalization has aided the consumer greatly at the expense of inefficient businessmen. Indeed, many businessmen are now protesting about "excessive" liberalization and competition that has led the less efficient among them to the brink of bankruptcy.

The most spectacular change has come about in two-wheelers—scooters, mopeds, and motor cycles. For decades earlier, the consumer was obliged to buy substandard vehicles from companies like Scooters India for want of an alternative, and the waiting list for Bajaj scooters ran to over 10 years. The two-wheeler industry was liberalized in the early 1980s, and capacity has almost tripled since then. New units have come up in collaboration with all the best known names in the world—Honda, Vespa, Suzuki, Kawasaki, Peugeot, Yamaha, Zundapp, Garelli. The result has been an unprecedented choice of models for the consumer, the disappearance of waiting lists, and the offer of cheap installment finance by producers. Kenetic Honda and Lohia Machines, whose scooters once fetched a hefty open market premium, have slashed their prices in order to stay in the market. The waiting period for even a Bajaj scooter has shrunk dramatically.

While the consumer has gained, many producers are in dire straits. Scooters India, Chamundi Mopeds, Andhra Pradesh Scooters, and Kelvinator's Avanti model have already fallen by the wayside. Only those really meeting consumer needs—notably Bajaj and Maharashtra Scooters—have been able to maintain their profit margins.

Less dramatic but similar stories can be told of cars, TV sets, synthetic fibers, computers, and many other liberalized industries.

—SWAMINATHAN S. ANKLESARIA AIYAR,
"Who Gains by Liberalization?"
sponsored by The Project
for Economic Education, Bombay, India

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Private Property Rights: An Endangered Species

by Paul D. Kamenar

Last July, John Pozsgai, a 58-year-old, self-employed truck mechanic, was sentenced to three years in jail by a Federal judge and fined $202,000 for violating the Clean Water Act. This is the longest prison sentence ever meted out in the United States for an environmental crime. No, Mr. Pozsgai wasn't the captain of the *Exxon Valdez* that ran aground in Alaska spilling millions of gallons of oil, nor did he dump toxic or hazardous wastes into any river or stream.

His crime? Pozsgai was sentenced for placing topsoil and clean fill on his own property without permission of the Federal authorities from the Environmental Protection Agency and the U.S. Army Corps of Engineers. Sparing no expense to nab this "criminal," the EPA even staked out the property with secret surveillance cameras and took several aerial photographs to capture the "crime" on film.

Unless the decision is reversed by the United States Supreme Court, the Environmental Protection Agency will begin using the case of *United States* v. *Pozsgai* as a precedent to send property owners to jail for two to three years if they dare put topsoil on their own property without the federal government's permission. Already another Florida man and his son have been sent to prison for two years for putting a few truckloads of clean sand on their property without EPA approval.

In another case in New Jersey, a retired couple was prevented from developing a lot they purchased years ago for retirement because environmental officials recorded the sound of an owl on their property. The property owners' suggestion that the owl could easily fly across the street to 16,000 acres of preserved wildlife refuge didn't faze the authorities.

The message the government wants to send by these cases is that private property rights and economic development are rapidly succumbing to bureaucratic regulation at the Federal, state, and local level, all in the name of the environment —regardless of the actual environmental impact. The clash between environmentalists and private property owners promises to be one of the major issues of the 1990s.

John Pozsgai, who immigrated from Hungary in 1956, works seven days a week out of a small garage behind his house fixing trucks to support himself, his ailing wife, and his two daughters. His home is located across the street from a 14-acre dump-site in an industrial area of Morrisville, Pennsylvania, near Trenton, New Jersey. The area has been used as a dumping ground and landfill for over 20 years. Pozsgai's property is bordered on the north and south by major roads, to the east by a tire dealership, and on the west by an automobile salvage yard. Mr. Pozsgai saw that property not as a dump, but as an opportunity to fulfill a lifelong dream of buying a piece of land on which he could build a garage to expand his small repair business.

Having saved enough money for a down payment, he bought the property in June 1987 and mortgaged his small wood-frame house to finance the purchase. He then began the Herculean task of cleaning up the property by removing over 7,000 used tires that had been dumped there over the years, along with other accumulated junk such as rusted auto parts, before placing clean fill and topsoil on five acres of the site.

Mr. Kamenar is Executive Legal Director of the Washington Legal Foundation.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Meanwhile, the Environmental Protection Agency and Corps of Engineers paid several visits to Mr. Pozsgai, claiming that the dump site contained some "wetlands," and therefore required a permit from the federal government before fill could be placed on the land. The site, however, isn't listed on the Department of Interior's National Wetland Inventory Map. In addition, Pozsgai claims that local officials who coordinate the permit program with the Corps of Engineers indicated that no permit was needed if clean fill (earth, sand, dirt) was placed on the property.

What Is a "Wetland"?

The EPA claims it had jurisdiction over this so-called "wetland" because the land is adjacent to a tiny stream which borders the property on the east. This "stream," which was dry most of the year, had a tendency to flood a portion of the site after heavy rains because of the damming effect of the old tires. Once the tires were removed, the flooding would cease. To the EPA and the Corps, however, the cause of the "wetland" conditions is irrelevant. It also is irrelevant that Pozsgai didn't put any fill into the stream. Indeed, he had installed a protective silt skirt fence along the stream after consulting county officials.

As far as the EPA and Corps are concerned, once they determine that a property is a wetland, Federal jurisdiction comes into play. Yet the familiar types of wetlands are estuaries, marshes, swamps, and bogs near open bodies of water that can serve as fish and wildlife habitats, or as filtering areas for pollutants that might harm water quality. Pozsgai's property is in an industrial area of town, far from any ocean, bay, or river. It isn't a marsh, swamp, bog, or anything close to it. Nor does it serve as a fish or wildlife habitat, unless you want to count the thousands of mosquitos that used to breed in the water standing in the old tires. Nevertheless, the Corps' soil sample of the site, as well as the presence of such "rare" vegetation as skunk cabbage, indicated that most of the dump site was technically a "wetland."

Indeed, the Corps has a regulation which authorizes placing fill on 10 acres or less of "wetlands" that are essentially isolated. If a citizen wishes to take advantage of this general permit, the regulation specifically states that no application for a permit is required. Yet the Corps was demanding that Pozsgai fill one out! With the help of his daughter, he tried in vain to get several engineers to complete the confusing and complicated paperwork.

The Arrest and Trial

The EPA had enough of Pozsgai placing topsoil on his own land, so they set up secret surveillance video cameras to record some of the filling activity. Armed with this evidence and aerial photographs, the EPA had Pozsgai arrested and indicted in September 1988 for "discharging pollutants into waters of the United States." Keep in mind that the "pollutants" consisted of earth, topsoil, sand, and clean fill. (Under the Clean Water Act, a child at the beach dumping a bucket of sand into the ocean is technically "discharging a pollutant into waters of the United States" and can be arrested for doing so without an EPA permit!) The EPA readily admits that no toxic or hazardous wastes were involved in this case.

Keep also in mind that the "waters of the United States" in question wasn't the tiny stream on Pozsgai's property, but the adjacent dump site that had been determined to contain "wetlands." Mr. Pozsgai had removed dirty old tires from the stream, never placed any fill in it, but rather erected a protective silt skirt fence along the stream's edge to prevent erosion.

Pozsgai's arrest and indictment were trumpeted in a press release issued by the U.S. Attorney for the Eastern District of Pennsylvania in Philadelphia, who now heads the criminal division of the Justice Department. The government was going to spare no expense in criminally prosecuting Mr. Pozsgai, although there are ample administrative and civil remedies available to the EPA to handle such regulatory matters. Violent criminals would have to wait the prosecutor's attention.

The trial took place during the Christmas holidays, December 26-30, 1988. The lead prosecutor, Assistant U.S. Attorney Seth Weber, was so confused by the Clean Water Act's requirements himself that he mistakenly thought that Mr. Pozsgai needed a National Pollutant Discharge Elimination System permit from the EPA, which is required for factories discharging wastes into water, rather than a simple fill permit from the Corps of Engineers. If an educated prosecutor doesn't know which permit Pozsgai is required to have, certainly Pozsgai, a Hungarian immigrant

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

with little schooling, could be forgiven if he found the morass of regulations a little confusing. Nevertheless, the jury, obviously impressed with the videotapes and the government's expert witnesses, found Pozsgai guilty.

John Pozsgai was sentenced on July 13, 1989. At the urging of the prosecutor, U.S. District Court Judge Marvin Katz sentenced Pozsgai, who has no criminal history, to three years in jail, the maximum sentence under the Clean Water Act, fined him $202,000, ordered him to be placed on probation for five years after he serves his three-year prison term, and to restore the property *not* to what it was, but to a pristine wetland according to plans by the Corps of Engineers. The judge and prosecutor ignored the probation report that this "crime" wasn't serious, that Pozsgai's wife, also a Hungarian immigrant, has a heart condition and that jailing her husband, her sole support, would likely kill her, and that the fines would impoverish Mr. Pozsgai who has a negative net worth and a meager income. Rarely do we see such examples made of the most violent criminals.

Pozsgai then asked the Washington Legal Foundation, a pro-free enterprise, public interest law and policy center, to represent him before the United States Court of Appeals for the Third Circuit. Incredibly, the court upheld his conviction on January 12, 1990, without holding oral arguments and without stating any reasons for its decision. If the Supreme Court doesn't reverse the case, the sentence imposed on Pozsgai would be the longest prison term ever served for violating the Clean Water Act or, for that matter, any other U.S. environmental law.

Research by the Washington Legal Foundation of all environmental crimes from fiscal years 1983-1989 shows that the usual disposition is a moderate fine and probation. In the rare case, a small jail term may be imposed for a dangerous polluter's dumping toxic or hazardous wastes.

Sending a "Message"

Why was Pozsgai targeted for the most serious penalty the law has to offer for simply putting clean fill on his own property? To quote the prosecutor, "a message must be sent to all land owners, the corporations, the developers of this country" that fines, probation, and short prison terms are a thing of the past for environmental offenses, especially those involving wetlands, because of President Bush's "no net-loss of wetlands" policy.

The government means business, at least when it comes to prosecuting the little guy. For at the same time Federal prosecutors were going after John Pozsgai, they were prosecuting another "water polluter" in Florida. Ocie Mills, a 58-year-old retiree, and his son were convicted and sentenced to two years in jail for placing 19 loads of sand on his property without a permit, even though Florida officials told him that none was required. Mills, who defended himself, proved no match to the *three* Federal prosecutors assigned to the case. Unlike Mr. Pozsgai, who was luckily placed on bail pending appeal, Mr. Mills was ordered incarcerated while his appeal works its way through the courts. Mills already has served a year of his sentence in a Federal penitentiary.

In short, the government intends to use the Pozsgai case as a precedent to start imprisoning corporate officers and other businessmen for environmental offenses, even though heretofore wetland cases have been prosecuted only in civil proceedings.

As for explaining how a typical arsonist would receive a much more lenient sentence than that meted out against John Pozsgai, the Justice Department responds in its appeal brief that arson "is directed at a limited number of victims," whereas the victims of Mr. Pozsgai's so-called crime "include the public at large."

The government also takes great offense at the Washington Legal Foundation's other arguments on appeal. For example, we point out that the statutory definition of "pollutants" means a discharge of earth or sand into "water" not "wetlands." The word "wetlands" is nowhere defined in the Clean Water Act. Therefore, since Pozsgai didn't dump anything into water, no crime took place. The Justice Department characterizes our interpretation of the word "water" to mean "liquid water" as an "innovative reading of the Clean Water Act." Only to government bureaucrats at the EPA and Corps of Engineers, with an ever-increasing jurisdictional appetite, would the placing of earth on other earth constitute a discharge of pollutants into water.

As for failing to prove at the trial that the stream was a tributary of the Pennsylvania Canal, or that the canal was used in interstate commerce (both of which, in this case, are prerequisites to Federal

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

jurisdiction), the government blithely responds that the dictionary defines "canal" as a waterway used in navigation, and the jury can simply assume it was used in interstate commerce.

We also point out that by the Corps of Engineers' own estimate, over 97 percent of permit applications are granted. Indeed, John Pozsgai has had an application pending for what the Corps refers to as an after-the-fact permit. It certainly would be a gross miscarriage of justice if Mr. Pozsgai were to spend three years in jail and be liable for $202,000 in fines when he is likely to get an after-the-fact permit that authorizes the fill already placed on five acres of the 14-acre site, especially when the amount of fill is well below the 10-acre exemption for isolated wetlands.

Regardless of the outcome of the Pozsgai and Mills cases, the Justice Department, White House, and Congress need to take a hard look to determine whether overzealous prosecutors and EPA officials are invoking President Bush's concern for the environment while ignoring his pledge to have his Administration foster a kinder, gentler America. To most Americans, scarce prosecutorial resources would be better spent fighting major polluters and violent criminals than imprisoning citizens whose only crime was to place clean fill on their own property. □

The Social Role of Private Property Rights

by Gene Smiley

Private property rights are the rights of a person to use his property in whatever way he chooses providing that he doesn't use force or fraud on any other person. One of the first economists to emphasize the importance of property rights was the Austrian economist Carl Menger. Writing in 1871, Menger noted that for most goods the quantities available were insufficient to meet everyone's needs. Potentially every consumer's interest was opposed to that of every other consumer's in the struggle to obtain some of the scarce goods:

> . . . with this opposition of interest, it becomes necessary for society to protect the various individuals in the possession of goods subject to this relationship against all possible acts of force. In this way, then, we arrive at the economic origin of our present legal order, and especially of the so-called protection of ownership, the basis of property. . . . Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between requirements for, and available quantities of, all economic goods.[1]

Private property rights, then, are a social institution which tends to bring about peace and harmony in a society of free people. In fact, they are one of the main foundations of a free society. There can be no personal or political freedom without freedom in the use of one's property. Limiting one type of freedom limits all freedoms.

But the social role of private property rights extends far beyond this. From the early 19th century to well past the middle of this century, Americans had the highest and fastest growing incomes in the world. The major factor behind this rising standard of living was their secure property rights.

Frequently it is suggested that the reason for this

Dr. Smiley is Associate Professor of Economics at Marquette University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

rapid growth was not Americans' property rights, but the fact that the United States was more technologically advanced than other nations. However, technological knowledge tends to flow easily between countries.

Consider, for example, Britain's failure to prevent the spread of the technical knowledge needed to mass produce cotton textiles. In 1789 Samuel Slater, a mechanic, immigrated to the United States with such knowledge, and with the capital of Moses Brown and William Almy began cotton textile production using British innovations. In 1810 a Boston merchant, Francis Lowell, observed British textile machinery on a trip through England. He memorized the designs and upon his return to the United States had a mechanic, Paul Moody, construct machinery from the plans he had put to memory. Moody improved upon these designs, and the Boston Manufacturing Company, the first of the great American textile producers, was established in 1813. By 1850 the United States had become a leading cotton textile producer.

Or consider the late 19th-century steel industry. The technology developed to produce steel was no secret from producers in other countries. But the United States came so to dominate steel production that it produced more steel than the rest of the world combined. Andrew Carnegie, a Scottish immigrant, willingly tore down old steel plants to build ones incorporating the latest technology because he was secure in the knowledge that they were his property. By the end of the 19th century the Carnegie Steel Company was the largest in the world.

The Impetus to Invest

The existence of secure property rights and laws of contract provided the impetus for these and other Americans to work, create, and invest. Jonathan Hughes has written, "People were willing to make extreme sacrifices to acquire property rights, to engage in undertakings with distant pay-offs—from clearing lands to building steel mills—in the hope of personal or family gain from property ownership."[2] As Hughes has noted, the framers of the Constitution considered private contracts so important that they were given precedence over the legislative powers of the states. (It should be noted that the Supreme Court reversed this in the 1930s when it abrogated all gold clauses in contracts in order to allow the federal government to make it illegal for citizens to own gold coins and/or bullion.)

The American system of secure private property rights has given the United States greater social stability than that of most other countries. The one great struggle in the United States, the Civil War, was fundamentally due to the perception by Southerners that their "property rights" in black slaves were threatened. Of course, Southern slaveholders had these "rights" only because they used the power of government to crush the blacks' rights to self-ownership.

In many countries labor unions became vehicles to promote social changes either through the political process or through revolution. Though there were always a few such groups in the United States, such as the Associationists of the 1840s, the Marxian Socialists, Lassallean Socialists, and Anarchists of the post-bellum era, and the Industrial Workers of the World after 1905, these were always minor or fringe groups.

The dominant labor unions of the late 19th and 20th centuries, the National Labor Union, the Knights of Labor, and the American Federation of Labor, generally rejected radicalism. They chose an economic agenda of improving the wages and working conditions of their members rather than becoming a political party with political objectives.

The basic reason for this was that the workers themselves were property owners with an interest in maintaining society and the existing rights to property. They had reasonable expectations of accumulating additional property. Political agendas which argued for the alteration or destruction of private property rights and contracts were correctly seen as being against the interests of most workers.

In a mobile, growing society, private property rights and laws of contract become what Hughes calls the "social bond" bringing peace and stability. Much of the unparalleled growth, prosperity, and freedom which the citizens of the United States have enjoyed for more than 200 years is due to the existence of secure private property rights and laws of contract. □

1. Carl Menger, *Principles of Economics*, translation of 1871 edition by James Dingwall and Bert F. Hoselitz (New York: New York University Press, 1981), p. 97.
2. Jonathan Hughes, *American Economic History*, 2nd edition (Glenview, IL: Scott, Foresman, and Co., 1987), pp. 577-78.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Saving a Forest: What Can We Do?

by Michael Reed

". . . the freedom to use private property ends at the property line."

— BENJAMIN A. ROGGE

The noisy chatter of chain saws and the crack-thud of tall trees being felled had been going on for a full week and was getting nearer to my back property line every day. My neighbors lived across the road to the east and next-door to the south. To the north was an empty parcel of acreage owned by the water bureau. The back of my house (and all my next-door neighbors' houses) faced west, gazing contentedly at almost 100 acres of verdant whispering-pine forest.

The trees offered an early respite from the searing heat of the setting afternoon sun, and brought cool, peacefully quiet summer evenings. But now that someone was cutting down those trees, the seclusion and idyllic evenings were in danger of extinction.

This eventuality evoked a singular question from neighbors and friends: "What can we do?" I found it immensely intriguing that the unanimous solution they proposed was to forcefully stop the owner of the trees from cutting them down.

Phone calls buzzed back and forth. My next-door neighbor called, asking in frantic tones, "What can we do? Can't we call the Sierra Club or some government agency?" A visiting friend, sitting on the deck and looking out at what remained of the trees, shook his head and complained that this despoiler of the forest should be stopped.

Mr. Reed is a technical writer in Portland, Oregon.

All these reactions endorsed the use of some coercive means to stop the owner of the trees from doing as he wished with his own property. This caused me to ponder some of the motives behind these reactions and to seek a more creative answer—a peaceful, noncoercive solution.

The Cutting Continues

For some time, I could only hear the chain saws. Soon, however, the loggers could be seen right at the property line, felling huge trees that shook the ground as they hit.

That day, about mid-afternoon, I moseyed down to the fence line and caught the attention of one of the loggers. I asked him if the property had been sold. He replied that only the trees had been sold and they were being cut down for mill processing. He said that if they weren't cut down now they would be past their prime for use as lumber.

At this point, I should explain that the owner of this forest property had put it up for sale in ten-acre parcels about a year before the first chain saw whipcord was pulled. During that time, none of the property had been sold. I surmised that since the owner couldn't sell the property as he had originally intended, he either wanted, or needed, to at least get value out of the trees.

After pondering the reactions of my neighbors, it occurred to me that what they were complaining about was the loss of a perceived benefit they had been receiving from the tall, magnificent pines growing behind their houses. These trees provided them with shade, privacy, and the aesthetic pleasure of a verdant view. But the problem with their complaints, I concluded, was that they had been

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

receiving all these benefits for free. These benefits were the result of another property owner's decision to keep the trees on his property rather than build houses, turn the property into pasture, or put it to some other use.

It didn't occur to my neighbors that their own property had once been tree-covered—just like the property behind them—and that at some time, the decision had been made to cut the trees down and put it to another use. But now that they were using their own land just as they wished, they were (incomprehensibly, to me) proposing to tell another property owner that he couldn't do as he wished with *his* property.

As Bernard Siegan has observed, "Everyone wants to live under optimum conditions, and one means to that end is to control the use of other people's property."[1] It was readily apparent that "control" certainly was the issue here.

As I continued my research, I discovered and formulated a few noncoercive approaches these folks might have used to allow them to live under optimal conditions and still protect the perceived benefits of having the trees at their back doors.

An Initial Approach

As I mentioned before, the owner of the forest had placed the property up for sale earlier in the year. At that time, I read this as a signal that it might be prudent to place a bid on a piece of this property to ensure myself of a small remnant of privacy in the event that the entire area were sold for building lots.

Again, the original offer was for ten-acre parcels. However, I could afford to bid on only two acres. Decisively, I placed a counteroffer and, just as decisively, was turned down. I never determined whether the owner chose to sell in only ten-acre lots, or whether county zoning regulations forced him to sell in those quantities, but the bottom line was that this avenue was closed.

However, this was one way in which my neighbors could have protected their interests without interfering with anyone else's affairs. But, as far as I know, not one of them offered to buy any of this property when it was for sale. They wanted to keep the benefits of having the forest, but they weren't willing to pay for them. Their only solution was somehow to prevent the owner from taking away what didn't belong to them in the first place.

Creative Possibilities

Now, suppose that my neighbors were in the same situation that I was, and they couldn't afford to bid individually on the ten-acre parcels.

Another solution would have been the use of restrictive covenants. These covenants ". . . usually govern architectural requirements, cost of construction, aesthetics, and maintenance." However, to ". . . completely control an area by restrictive covenants where none exist requires an agreement by every owner, since only the properties of those who sign are bound."[2] But, as architect John Gillis points out, while it is true that restrictive covenants are most easily applied in new neighborhoods

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

where requirements can be agreed upon from the beginning of development, ". . . some measures can be taken in an existing area. A property association can be formed, and members can agree to abide by certain limits. . . ." Of course, he says, there may be a few holdouts, but "If the agreeing landowners feel strongly enough, they can offer to purchase the few holdouts, so that deed covenants can be added to those properties. Then they can resell the property to a new owner. Another option is to ignore the few holdouts for the time being, since most of the neighbors have agreed on a certain set of conditions.

Then as the few holdouts come up for sale over the years, the association can bid on them and slowly complete the process of protection."[3] In this case, perhaps I, and my concerned neighbors, could have combined our assets and co-owned a ten-acre parcel of land with a mutual agreement to preserve the trees.

Finally, if none of these solutions to preserve the trees was satisfactory, the individual property owners could have planted a row of trees at the back of their property as a kind of "privacy curtain." This would directly put their money where their perceived benefits were.

While it is beyond the scope of this essay to compile an exhaustive catalog of solutions to the myriad issues that surround the concept of private property, the key to each of my proposed solutions is that they are consistent ". . . with the ideals of a free society in which people should be able to do as they please unless their acts clearly harm or interfere with the liberties of others."[4]

This statement can be further distilled into a Confucian maxim that Leonard Read frequently emphasized, a phrase that I consider to be the essence of the freedom philosophy: "Do not unto others that which you would not have them do unto you." When this philosophy is consistently applied, freedom expands as all individuals are free to act peacefully and creatively without "neighborly" coercion. And as this philosophy is consistently appropriate to other areas and actions in life, it is just as appropriate when it comes to private property and creating peaceful answers to the question, "What can we do?"

At last the day came when all the trees were gone. Where I once had shade for my deck beginning in late afternoon, I now had the glaring solar heat beating down until well past eight in the evening.

O.K., I thought, so now what? Then, one day as I gazed out over the now clear-cut acreage, the wise words of Alexander Graham Bell came back to me from somewhere over the barren horizon. "When one door closes," I could almost hear him gently saying, "another opens, but we often look so long and so regretfully upon the closed door that we do not see the one which has opened for us."

In this moment of enlightenment, I created my own peaceful solution: I decided to purchase an awning. Soon it was installed in all its glory. In addition to being colorfully striped and enhancing the appearance of the house, the awning shaded the deck for the entire afternoon when the sun was fiercely blazing overhead. And when the sun finally dipped below the horizon, I discovered the secret that the tall trees had been keeping: swirling vermillion and neon-tangerine sunsets that were splashed, as if by some heavenly impressionist, across the canvas of the turquoise-fading-to-violet evening sky. Another door truly had opened.

Interestingly enough, after all the initial comments from my neighbors, no one actually did anything at all. As economists know, everything has a cost attached to it. This includes the time, money, and energy it takes to implement coercive proposals. I'm thankful that my neighbors, for whatever reason, found the costs too high.

Epilogue

A few weeks later, I glanced out my back window and saw about a dozen people walking on the clear-cut land in the distance. They would walk a few steps, bend down, walk another few steps, bend down, and repeat the process. Out came the binoculars. With their assistance, I could immediately see what these people were doing.

I smiled and wondered what my friend would say when he learned that his "despoiler of the forest" was planting new trees. □

1. Bernard H. Siegan, *Other People's Property* (Lexington, MA: Lexington Books, 1976), p. 11.
2. *Ibid.*, pp. 58, 59.
3. John Gillis, "The Impracticality of Zoning," *The Freeman*, October 1987, p. 374.
4. Siegan, p. 55.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Building a Barn

by Hannah Lapp

One day early in 1974, Dad said, "Let's build a new barn and milk 80 cows!" And not one of us offered to knock down the suggestion. It was just as though we were all waiting for him to say it, so we could add to it our own hidden aspirations. Everyone, from Dad who worked nights at a canning factory, down to the littlest child, Nathan, who felt sure he needed more to do, was itching to embark on a project big enough to accommodate more of our energy.

Milking 20 cows didn't come close to employing all of us at our home in Cassadaga, in western New York. My sisters Rebecca and Drusilla still worked night shifts at the ice cream factory, and kept wishing they could get away from it. Dad was an A.I. (artificial insemination) technician for American Breeders Service besides holding his factory job. The older girls still worked for produce farmers in the lake area off and on during most months of the year.

What we really wanted was work at home, and it had been only Dad's reluctance to operate on borrowed money that held us back this long. If we were going to invest in a large barn and silo, and buy the cows and equipment to go with it, we were going to do some thorough planning first.

Our labor resources were not questioned, for there wasn't one of us in our family of 13 who wasn't anxiously waiting to fill his role in making the operation run. It couldn't have mattered less to us that Dad said there would be no wages paid. We took for granted that we would share jointly in the rewards of an enterprise jointly run.

Money was a more complex matter. We had never done something like borrow $20,000 for a barn, $10,000 for a silo, and another $20,000 for machinery and good cows.

"Why not just 50 cows?" suggested the more skeptical family members. But the voices of those who were determined to quit their off-farm jobs and work at home were louder. We debated and calculated hard and long. Finally a compromise was reached that set the herd size at 60 cows and silo at 70 feet high by 20 feet wide. The total investment would be $50,000.

The design for the barn was developed step by step through studying the barns of other farmers and listening to their comments. Although Dad wasn't an experienced architect, we determined to take advantage of our own family labor by building the whole thing ourselves. My brother Chris had a good head for calculations. We girls, down to the littlest ones, believed ourselves capable of becoming construction workers, and Dad expressed no reservations in the matter.

Above the southern rim of our valley stretches a 200-acre forest with dozens of different kinds of trees, some of which could be used for lumber. The previous owner of our place had taken out all the marketable timber, but had left the hemlocks. Dad took to the woods with chain saw, tractor, logging chains, and tape measure to cut the lumber trees we needed for our building project.

Logging Begins

Logging began that summer. Often Dad had only one of us younger children as an assistant. At nearly 9 years old, I thought myself just the right size to take this position, and somehow, perhaps because I was not yet bound to many farm duties, I got what I wanted. I followed Dad to the woods day after day, a serious, dedicated helper on the

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York. This article is excerpted from a book she is writing about her family and their experiences as farmers and farm workers.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

one hand, and on the other hand an altogether frivolous youngster carried away by the charms of the deep forest. I carried tools and even the chain saw for him, and every time a tree was felled, I held the end of a rule in place as he marked out 20-foot lengths on its trunk.

Dad stripped the logs of all branches, hooked them to heavy chains, and dragged them out with the tractor. I followed the path of the logs until we reached the wood's edge, then stopped in the shade to rest while Dad dragged them on down over the fields and hills for home. He usually returned after about 15 minutes, leaving me just enough time to do a little exploring or carve letters into a tree trunk.

The "silo men," as we children called the five-man construction crew that erected our silo, came in late July. The excavating had been done for the barn, but the silo was the first to rise from the ground and let the world know that cows would live there.

The silo men raised their scaffold ever higher, and the soft concrete mix now had to be hoisted far up the silo wall before being dumped into forms to constitute more wall. We children observed their work day by day and wondered how they could tolerate the height as they pushed toward the top of the silo's 70 feet. Metal steps were one by one concreted into the silo wall, creating a ladder from bottom to top of the structure. One of the silo men used to shock us with his stunt of rapidly descending the silo with only his hands catching the ladder rungs while his feet slid down alongside.

By mid-August, the 70 feet of silo were up, and the figures of the men as they worked on top looked dwarfed and distant. Atop the rim of the silo, they erected a ten-foot dome roof in bold green and white stripes. The silo now waited to be fed with 550 tons of corn silage. Since chopping that much corn by hand wasn't feasible, we bought a mechanical chopper to do the job, and a brand-new, 70-horsepower tractor to pull it.

Laying the Foundation

The blueprint for our barn was shaped over many hours of time, hours spent by Dad, Chris, and my sister Lydia, crouched over big sheets of paper spread out on the living room floor. Dad may have been the head planner, but Lydia, who was a teacher, had to help with complicated figures, and 15-year-old Chris's natural ability with mathematics was invaluable. It was Chris, who under the occasional supervision of a contractor, laid most of the thousands of concrete blocks comprising our barn walls' 140-foot length and 40-foot width.

The older sisters picked tomatoes that fall, so Barbara, then 13, also learned the masonry trade. She and Rachel made the mortar by mixing sand and water with cement powder. They tried hard to get the mortar's consistency just right with the proper amounts of each ingredient. Sometimes the mix turned out too hard, or so soft that the block-layer rejected it. Sometimes they mixed too much at a time, forcing the crew to work overtime to use it up before it dried. When they succeeded in turning out a batch that pleased everyone, they called it a "jolly mix."

After the block wall was up, we were forced either to accustom ourselves to working at steadily increasing heights or be left out of the game. Since no able-bodied Lapp worker was going to accept being left out, we one by one timidly climbed up to try the eight-foot wall. "You'll learn," Dad assured us. "Here, hold this." He placed the end of a measuring tape into Nancy's hand as she hesitatingly tested her balance atop the wall. Dad strode off toward the far end of the barn, drawing out the length of the tape. And then he did not stop. "Follow me," he casually called over his shoulder as he went on, holding one end of the tape as Nancy held the other. Dad's pace seemed impossible to match, and Nancy at first tried to draw back. But pulling against him upset her balance so badly that she found it was best to just keep running after him, all the way to the end. After such an introduction, she had little trouble with working atop the barn wall.

Two ceiling beams, consisting of 2x8's nailed together four thick, were to be set up the length of the barn. "Now, how will this be done?" was always the question when we came to each new task, especially such a job as raising 140-foot-long beams to ceiling height and supporting them with posts. As with every other step in the barn-building process, the workers gathered to hear ideas exchanged and together improvised a plan. First, board racks were put on the bed of our old pickup truck, and the box stacked full of hay bales that reached almost to the barn ceiling height. The truck was parked inside the barn walls, and the 2x8's constituting the beam were nailed together in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

TODD GURCHARD

Lapp family farm hands, left to right: Barbara with daughter Miriam; Lydia with daughter Melissa; Drusilla with son Abel; Rachel; Hannah; Dad (Jacob); Mom (Barbara); Nathan; Susan.

their proper position atop the load of hay. As more length was added to the giant beam, the truck crept slowly forward, and temporary supports were placed under the finished portions. Several workers carefully lifted the weight of the beam's free end each time the truck moved forward.

Permanent pillars were made for the beams using old six-inch metal pipe which we filled with cement. Each pipe was planted in a five-gallon bucketful of concrete and then sunk into a hole in the ground before it took the weight of the beam. Fifteen of these pillars, under each of the two beams, were to suffice to hold up some 100 tons of hay which we would some day store in the loft.

Snow fell on October 2nd that year, giving us qualms about completing our construction project before winter closed in. The work was not in professional hands and progressed but little by little. One late October day when the sun shone and work was frenzied, the noise of a honking horn grabbed our attention. It was Drusilla, Nancy, and Lavina arriving home from work and announcing with a good deal of ballyhoo that the tomato picking season was over. After that the barn took shape fast.

Raising the Roof

Each rafter for the gambrel roof was nailed together atop the barn ceiling, then painstakingly balanced by a team of seven workers as it was raised to its permanent upright position. The roof peak rose 20 feet from the ceiling, or loft floor, of the barn. The loft floor as yet was just a temporary network of boards strewn over the joists. The workers learned to move about with confidence over these boards. Actually, it was too easy for confidence to take the place of caution. Lavina once landed a foot too close to the end of a loose board and it tipped, reared up, and whacked her forehead with the other end. She slipped down between the floor joists but caught herself at chest level and hauled herself back up so fast that only a good bruise on her ribs remained as evidence of her sudden descent.

Each family member had to make his own sacrifices in the rush to close up our barn before winter settled in. Off-time was reduced and even our usual Sunday and evening Bible study hours had to be compromised. At meal time and breaks, there were just a few minutes to relax before someone would get up to sound the action slogan "Barn ain't done yet!" sending a fresh surge of motivation exploding through our veins. With one accord, the group would be dashing for the construction site, the girls' skirts flying . . . and the chorus of a half-dozen hammers would sound again. Sometimes, the workers were served their snack of hot chocolate and popcorn while perched atop some board ten feet above ground level.

Barn rafters were done in a week, and laths were nailed across them, introducing the workers to steadily greater heights. By the time they reached the peak of the barn, they could monkey up and down the laths with skill and confidence. Rachel, next oldest to me, was the youngest Lapp to brave the barn roof.

When we started to nail on the tin, neighbor Howard Spinler and his son appeared unexpectedly to speed up the process. Although they were initially skeptical of the roof heights, their strength and carpentry abilities proved to be a boost that cut the roofing time in half. It was with great relief that we closed up the roof, for stormy weather was in the forecast.

December came before the gutters were all dug and forms nailed in place for concreting the floor

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of our barn. Starting with the milk-house floor, we began pouring concrete on December 3rd and took until January 1st to finish. No one took a count of the wheelbarrows full of soft cement that were wheeled over plank tracks to be emptied into board forms. But the concreting days, known for their long hours of strenuous work, were counted one by one. The advance of truly cold weather was cause for alarm; even with portable heaters running inside the barn, it was difficult some days to keep the cement mixture from freezing before it hardened.

The feat of driving a wheelbarrow weighed down with 250 pounds of gently rolling cement mix while keeping it from tipping or sliding off the board track demanded such a level of combined strength and skill that at first some of the girls thought it impossible. To spill your load was just out of the question—but so was refusing to try. One by one the girls conquered the challenge until they found their uncertainty replaced by sheer anticipation over the daily arrival of the Dunkirk Ready Mix trucks. Since the truck driver charged for his waiting time, the cement forms had to be ready on schedule, as well as several wheelbarrows with their drivers.

"If there's one downright ugly task," Dad says now in looking back, "it's getting concrete forms just right, and on schedule for the cement truck. Boy, I remember how it was when they bulged, or shifted too! How did we figure we could do it?"

"Barn Ain't Done Yet!"

One of the ways we got it done was by working late into the night, lanterns overhead lighting the work area where Dad, Mom, Chris, and sometimes Drusilla, Nancy, and Lavina bent over trowels, hammers, boards, and levels, smoothing concrete and making forms for more. Ten o'clock at night was a very poor time to run into problems with your work, too. Lavina hated to hear Dad grumble, which he was apt to do at that hour, so she tried hard to keep things running right and not complain herself. If she did bother with talking about the length of her workday, one of her sisters would probably just quickly retort, "Barn ain't done yet!"

Except for electrical and plumbing jobs which required professional supervision, the barn building was completed January 1, 1975. That afternoon, a blizzard swept into Cassadaga, enveloping us in fresh levels of cold and snow.

On January 9, we led our milk cows one by one down the road from the old barn and began, before a crowd of spectators and with some appropriate fanfare, to milk cows in the New Barn. Since our new bulk tank was not yet in operating condition, we had to lug all the milk back up to the old barn for a few days. We just couldn't wait longer to take our cows out of the crowded old quarters and see them in their new stalls. The last six months of labor had centered around getting them into a clean, spacious, and comfortable setting where they would kindly reward us with returns on our investment.

Beyond the teenage enthusiasm, aspirations, and innocence involved in the development of our 60-cow dairy, and beyond the sentiments of a family longing to share together in an honorable enterprise, there loomed some cold, hard facts. Cassalea Farms was now an $80,000 business whose success depended on more than just good intentions and hard, honest labor. Each family member over 18 now worked under a $10,000 debt.

It is such figures as these, and much bigger ones, that rob the simplicity from farming. In handling large sums of money, we make ourselves more than just common laborers. We become investors and businessmen, and the farmers who fail to acknowledge this and neglect the discretion of an investor are among those who eventually go down the drain hollering for society, the banks, and government to bail them out.

The investment per worker in our case was lower than in most other dairy operations we know, because we continued to rely on hand labor where most others used machines. But there also are farmers who have readily outdone us in keeping debt down. The frugal, debt-free, and therefore successful kind may be rare nowadays, but those that remain are farmer-businessmen as dedicated, tenacious, and shrewd as ever there have been.

There are also those farmers who consider their choice of occupation so important that they are willing to ask others to finance their efforts to keep going at a loss. This is where the rights of others enter the picture. Strong sentiments toward working the land and owning animals can be respected, but letting these sentiments rule the handling of large investments should be done at the risk of the operator, and not at the expense of American taxpayers. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Freeman Interview: Wan Runnan

On June 4, 1989, Chinese troops stormed Tiananmen Square in Beijing and massacred hundreds of students and citizens, thus bringing to an end the peaceful protests which threatened to topple Communist rule. While Eastern Europe has seen the astonishing success of democratic forces, the images from the Beijing Spring—the Goddess of Democracy, student leader Wuer Kaixi lecturing Prime Minister Li Peng, and the lone protester standing in defiant anger before an advancing tank column—continue to inspire despite the government crackdown. What many do not know is that private entrepreneurs worked side by side with the student protesters in advancing the cause of liberty. Among them was China's best known businessman, Wan Runnan.

Born October 29, 1946, in Jiangsu province, Wan Runnan was in college studying engineering when he had his first taste of repression. With the fanaticism of the Cultural Revolution sweeping the country, Mr. Wan was forced to interrupt his studies by the authorities and sent, without reason, to labor as a railway worker in the countryside. He eventually graduated from Qinghua University and went on to a position with the National Academy of Natural Sciences.

Mr. Wan grew increasingly frustrated with the Communist system and began to look for ways to promote a free market in China. In 1984 he started Stone Corporation, which produces computer software and English-Chinese word processors. Starting out with a loan of 20,000 *yuan*, Stone Corporation grew rapidly and reached sales of 8 million *yuan* in 1989. The company presently employs 2,000 workers and has branches in Hong Kong, Australia, France, and California's Silicon Valley. Stone is credited as being the largest privately owned business in China, which earned Wan Runnan the title of "China's leading businessman."

When the pro-democracy protests began in the spring of 1989, Mr. Wan provided material support for the demonstrators in Tiananmen Square and helped organize negotiations between the students and government. He became convinced that the Communists would crack down if the square wasn't evacuated, but his warnings to the students went unheeded and the massacre soon followed. Mr. Wan decided to flee after the June 4 crackdown and is now wanted by the Chinese authorities.

A month after the massacre Wan Runnan, along with prominent exiles such as Wuer Kaixi and Yan Jiaqui, met in Paris to call for the creation of the Federation for a Democratic China. At the FDC's inaugural conference last September, Mr. Wan was appointed Secretary-General of the organization. He was the main force behind the FDC's adoption of a resolution calling for a free market in China and has become the most vocal advocate for private enterprise.

On January 17, 1990, having just returned from a six-week trip abroad and a meeting with New York Congressman Stephen Solarz, Wan Runnan spoke with Paris-based journalist Daniel Pruzin at FDC headquarters in Paris. The Chinese-English translation was provided by Lan Dong, Secretary of Information for the FDC.

Q: I'd first like to ask what inspired you to start up Stone Corporation? Did you face many obstacles?

A: I would say that the main reason for starting up Stone Corporation was not to make money but to explore the ways and means of reforming China through free market means. And needless to say, there were a lot of initial obstacles from the government to overcome!

Q: What were the problems that needed reforming?

A: The main problem that came to my mind had to do with ownership. In China, the means of production are mostly state-owned. For example, in the countryside you have something called the

Daniel R. Pruzin, who conducted this interview, is a journalist based in Paris. He holds a Master of Science in International Relations from the London School of Economics.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

DANIEL PRUZIN

Wan Runnan

self-contract responsibility system, in which land is owned by the state but individual farmers are responsible for how the land is used. They fill state quotas, but the farmers can choose what to grow and can keep what profits are made from the surplus.

The problem, though, is that the land is still state-owned. As long as private ownership is not established in China, it will be very hard to stimulate the economy and expand upon this initial development.

Q: Your involvement with Stone Corporation indicates that you lost faith in the Communist system. When did you become a believer in the free market?

A: To be frank, a long time ago. Before the Cultural Revolution I began to disbelieve in the Communist economic system.

Q: How did you first become involved with the pro-democracy movement?

A: Well, like many other common citizens I was initially just an observer who was sympathetic with the students' demands. I was inspired by their bravery. I then decided to get involved by supplying the demonstrators at Tiananmen Square with food and drink.

Q: But why did you get involved? After all, you had a successful company and served as a role model for Deng Xiaoping's modernization program. Why did you risk all of this?

A: To understand this you have to understand my background. As I said, the reason I started Stone Corporation wasn't to make money but to explore the ways and means of reforming China politically and economically. I also established a research institute to study political and economic issues. My partner at this institute, Mr. Cao Siyuan, used to work with the economic reform commission of the state. He was the first to propose China's bankruptcy laws, the monitoring system, and the auditing system at the People's Congress [China's representative body]. Unfortunately, this very prestigious scholar was arrested after the June 4 crackdown.

Then you have to look at the demonstrations last spring. During the Tiananmen movement, private businesses were among the most active supporters of the students. The students had a genuine trust in us; when they had problems or difficulties they came to us for help.

So as you can see, my involvement in private enterprise hasn't been for personal gain but has always had political and economic purposes behind it.

Q: At one crucial point in the pro-democracy movement last spring you played a major role in arranging a secret meeting between the student demonstrators and then-Communist Party General Secretary Zhao Ziyang.[1] This was just before the arrival of Mikhail Gorbachev for a state visit, and the government wanted the students out of Tiananmen Square to avoid public embarrassment. Why did the government turn to you to arrange the meeting?

A: As a matter of fact, the government didn't ask me to arrange the meeting. I, along with others, took the initiative to arrange the meeting out of humanitarian concerns—we were afraid things were getting out of control and that violence would erupt.

I actually helped to arrange three secret meetings between the students and the government. The first one took place at the International Hotel, the second at Beijing Hotel, and the third at Stone Hotel.

I told the student leaders at the meeting that the square would have to be evacuated, and eventually they came to agree with me. But there was such confusion at the time! At the peak of the demonstrations there were students from about 75 different universities, which made it difficult to establish order. So even though the student leaders agreed with me to evacuate the square, they couldn't con-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trol the demonstrators and couldn't get them out of the square.

Q: It's sadly ironic then that everybody agreed to evacuate the square in order to calm things down but couldn't.

A: Yes, indeed. We had a slogan at that moment called "The Four Senses." The slogan was: "Students back to school! Troops back to their barracks! Repeal martial law! Restore order!" This was *our* position at the time and *not* the government's.

Q: Did you have a feeling that everything would end in tragedy, or did you still believe the pro-democracy movement would triumph?

A: I did believe that a tragedy would happen. I even told this to Mr. Wang Dan, one of the student leaders. I asked him to listen to me, to follow my advice, because I knew the Communists and was much, much more experienced in dealing with them. Unfortunately, he didn't believe me.[2]

Q: At what point did you feel that everything was lost? The student leader Shen Tong said in a recent interview that he knew it was all over by May 14, the day the students failed to evacuate the square before Gorbachev's arrival.

A: I thought that tragedy was inevitable the day martial law was declared, on May 19. Before martial law, there was still a balance between the two forces struggling against each other. At this stage it was still possible for either power to overcome the other. The declaration of martial law signaled the decline in influence of General Secretary Zhao, who was still an advocate of a peaceful resolution. After that, those who advocated force gained the upper hand and the balance tipped in favor of the government.

Q: You were in Beijing when the June 4 massacre took place. What was your initial reaction?

A: My first reaction was simply, "It's too tragic for China." I was at my office at the time, waiting by the telephone for information. Staff members of my company who were at the square ran back and reported everything to me instantly.

Q: Did you decide to flee China at that point?

A: No, not as early as that. After the massacre I first made some day-to-day arrangements at Stone Corporation, then decided to get out of Beijing and stay in southern China for a while. I had already planned a business trip to Hong Kong to visit my company branch, and it was during my stay there that I decided to escape.

Q: You are currently wanted by the Beijing authorities. What are the official charges against you?

A: (laughing) Well, I think the official charges are something like "planner, organizer, and agitator of the counterrevolutionary movement." But all we did was to support the students' demands and call for an emergency session of the People's Congress. We wanted the students to withdraw from Tiananmen Square, but Deng Xiaoping wanted to settle the problem with tanks and machine guns. We advocated the settlement of the issue within a *legal* framework, that is, an emergency session of the People's Congress. We did nothing wrong!

Q: Let me turn to your involvement with the Federation for a Democratic China. You are recognized as the organization's leading advocate for a free market. How widely supported is the notion of a free market among Chinese people? There seemed to be few demonstrators in Tiananmen Square calling for such an idea.

A: I'd like to start off by saying that the advocacies of a political organization such as the FDC should be different from the advocacies of the masses. For example, at Tiananmen Square the people knew only what they were *against,* not what they were for. A political organization, however, has to go beyond that, to advocate what should be built, what should be established.

As far as whether a free market is supported by most Chinese people, I think you should take a look at the enthusiasm within China for the self-contract responsibility system. The level of support for this system is a sure indication that many Chinese want a free market.

Q: Is it difficult promoting economic reform in an organization primarily concerned with a political goal, i.e., democracy?

A: At the inaugural conference of the FDC last September, support for the free market was written into the organization's charter. It was written into the charter because a majority of our mem-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

bers voted in favor of it. It's as much a goal of the FDC as democracy or respect for human rights.

Q: Let me pose a critical question. Some have complained that the FDC has failed to make an impact within China. It has also become apparent that rifts have developed between members, with some criticizing the student leadership in the FDC as being too immature. The FDC vice-president Wuer Kaixi decided to take a five-month leave because of complaints over his personal behavior.[3] Has the FDC failed to live up to its potential?

A: Well, this sort of criticism signifies that people have very high expectations for the FDC, otherwise they wouldn't criticize us like that. I agree that the students are young and that they are still learning, but I'd like to point out that they *are* learning. The students were very brave in Tiananmen Square, and they enjoyed admiration from around the world. They are symbolic of the Tiananmen Square movement.

I'd also like to point out that Mr. Wuer Kaixi is outstanding among the student leaders who are now political exiles. He's been very cooperative and has worked very hard learning new things with our people.

Q: You recently returned from a six-week visit to the U.S., Japan, Australia, and Taiwan. What was the purpose of this trip?

A: I had two purposes for my visit to these countries. First of all I wanted to develop the overseas organizations related in some way to the FDC. The second purpose was to establish contacts between the FDC and the governments and people of these four nations. And I can go as far as to say that on both points my trip was very successful.

While I was in the U.S., I met a number of Congressmen, among them the leaders of both parties and the chairmen of the human rights committees in the House and the Senate. I also had the opportunity to visit San Francisco and Los Angeles to have discussions with overseas Chinese in both cities. I'm happy to say that I was given an enthusiastic reception.

Q: The Bush administration has maintained that positive gestures from the Chinese authorities would result from the Scowcroft mission [U.S. National Security Advisor Brent Scowcroft visited Beijing on a secret mission in December 1989] and would prove that the decision to resume contacts was right. In light of such moves as the lifting of martial law, the release of some 500 pro-democracy demonstrators from prison, and the toning down of anti-U.S. rhetoric, has the Bush administration been proved right?

A: I think that all of what has happened recently in Beijing was actually designed by the Chinese authorities to prove that the Bush administration was right, to justify Scowcroft's visit to Beijing.

We have issued a number of statements saying that the lifting of martial law is false. It's only in name, not in substance. We have ample evidence to indicate that the army simply changed their uniforms with the government police, and that the government police have become plain-clothes agents. Nothing has really changed.

The machinery of crackdown continues to exist. The persecution of pro-democracy demonstrators goes unabated. There are still secret trials, executions, and the continued claim by the government that the June 4 movement was nothing more than an "anti-revolutionary rebellion." To the wise observer, it is clear that nothing has changed.

I believed that some of the pro-democracy demonstrators would be released. But what the Western democracies can't understand is that in order to appear better in the public eye the Communist regime will do almost anything. They'll build fake towns, they'll dress up a prison. I'll give you an example at how skillful they are at making false appearances. When President Nixon first visited Beijing he was invited to visit a store called the Dung Dang Grocery Market. The store was filled with happy customers, each carrying a chicken. A few reporters, however, noticed that the customers weren't paying for their goods. They followed the customers out the front door and saw that they were sneaking around and reentering the store through a back door. There they quietly rejoined the crowd of customers, chicken in hand. The "customers" turned out to be store employees dressed up for the occasion.

There's also the time when President Nixon was visiting the Great Wall. Upon arrival he "spontaneously" met a group of colorfully dressed young people playing cards, dancing, and so forth. They approached Mr. Nixon and treated him with great respect. But one of the reporters who came along was suspicious. After Nixon left, he stayed behind

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and watched as the group took off their colorful clothes, lined up, and marched away.

And now the Communist authorities are playing another game with the Bush administration. It's tragic that the Bush administration is not aware of this.

The crux of the problem is not the partial release of those arrested. The problem is, will they release *all* the political prisoners, and will they re-evaluate the 1989 democratic movement? Will they try to put the butchers of Tiananmen Square on trial? That's the problem.

Q: Are you frustrated with the Bush administration's attitude toward the pro-democracy movement or do you feel your long-term interests are being looked after?

A: As an independent organization we must rely upon ourselves, on our own initiative, on our own strength. We cannot rely upon anyone else. The Bush administration has its own practical concerns. In a sense, we are prepared for this. Since we are prepared to rely upon ourselves, there's no point in feeling frustrated. We don't feel any sense of betrayal.

Q: I'd like to ask you about Chinese economic affairs. At this time China is undergoing its most serious economic crisis since the reforms of Deng Xiaoping were introduced in the early 1980s. Beijing authorities recently introduced an austerity plan which, among other things, prescribed controlled prices, strengthened state enterprises, and increased taxes on businesses. Is this austerity plan the answer to China's ills?

A: Even before the June massacre, during March in fact, the Chinese authorities were drawing up plans for austerity. At that time I expressed the opinion that the austerity policy was wrong for the Chinese economy. Not that the Chinese economy wasn't ill; I just thought that the medicine they wanted to use was wrong. It's not going to solve China's problems.

Q: It's been reported that a government crackdown on private businesses coupled with austerity has already forced 2.2 million of China's 14.5 million private enterprises to close.[4] Is this true?

A: Yes.

Q: Has Stone Corporation been affected?

A: So far Stone Corporation has not been closed. That's because Stone doesn't need investment from the state. On the contrary, we can still provide income for the government, so for this reason we haven't been closed.

Q: Are you still in charge of Stone Corporation?

A: Personally I'd like to believe that I'm the boss, but at the moment it's hard to say. Because I'm wanted by the Chinese authorities, I can't come back to manage the company. I believe though that someday I'll come back to China.

Q: According to the government the reason for the crackdown against private businesses is that many of them have been evading taxes, smuggling, and profiteering.[5]

A: It's natural for such phenomena to occur in an economy that's not well-developed legally. That's understandable. For China especially it's natural to have some cheating going on when for the last 10 years we've been switching from an old economy to an emerging one. In China, however, the fundamental reason for such phenomena emerging is because there's no rule of law but the rule of power. Therefore, we shouldn't think only about invigorating the economy but also think about the demarcation of ownership, the development of rules for the market, and the rule of law instead of the rule of power.

Q: Could the austerity program provoke unrest?

A: Yes, without a doubt. About 40 million Chinese peasants are in the cities as migrant workers, and if the authorities succeed in implementing their program these peasants will be out of work. This would have a great impact on Chinese society.

Q: How far will the austerity program set back China's modernization?

A: It's hard to say. The problem is that the struggle is still going on between those who support austerity and those who support a continued opening of the market and reform. Although the central government wants to force the austerity measures on the rest of the country, there's a great deal of resistance from the provinces. In fact, the provinces have already succeeded by a large degree in overcoming Beijing's austerity plan.

One indication of how the struggle is going

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

between the two camps is that the governor of the state planning commission, Yao Yilin, has left his post and been replaced by Zhu Jiahua. Although Zhu Jiahua is a supporter of the austerity policy, he is not as conservative as Yao Yilin.

Q: On one hand the Beijing authorities seem to be reverting to orthodox Communism, as political repression increases along with state planning of the economy. On the other hand, the authorities call for a continuation of economic reform and increased economic ties with the outside world. They have even said they want China's special economic zones in the south to keep such privileges as lower taxes and reduced restraints on businesses.[6] What do you make of these mixed signals?

A: My impression is that they have disordered themselves badly while giving only lip service to reform.

Let me give you an example. An American banker recently asked Yao Yilin what exactly he wanted to reform since he came out in favor of continued economic reform. Yao Yilin didn't know what to answer. An assistant of his whispered to him that the pricing system should be reformed. Suddenly Yao Yilin jumped up and shouted, "Yes, I will reform the pricing system!"

It's this sort of lip service which makes people believe that the government is insincere.

Q: As a businessman, would you advise foreign companies to invest in China at this time?

A: No. My advice for businessmen is this: Under political and economic uncertainties the investment environment should be dubbed as unfavorable. Thus, no investment should be made.

Q: What about economic sanctions? President Bush has lifted some of the sanctions he imposed after the Tiananmen massacre, which Prime Minister Li Peng admitted had hurt the Chinese economy.[7]

A: Of course I'm for continued economic sanctions because any difficulty that can be created for the current regime is a favor to China's democratic movement.

Q: But isn't it true that ultimately economic sanctions fail?

A: It's true that the usefulness of economic sanctions is limited, and I agree that in the long term they will fail. But before they fail sanctions do some damage. Li Peng himself has felt the proof.

Q: Do you feel that free market reforms are still possible under the present regime, that they can return to the "good old days" of economic growth under Deng?

A: It will be very difficult. The reason is that the people have lost confidence in the present regime. Take me, for example. I used to believe that it would be possible to have economic reforms within the framework of the present political system. Needless to say, I don't believe this anymore.

The events in Eastern Europe have also frightened these leaders, especially the old-timers. They're going to be more cautious and more conservative.

Q: Chinese authorities have also switched to a hard line in respect to their relations with Hong Kong, which will be turned over to the Communists in 1997. Do you think the economic prosperity of Hong Kong as well as China could collapse under the present regime's hard line?

A: Definitely. Hong Kong's future is very much in danger. You might even say that today's Beijing will be tomorrow's Hong Kong. The best chance for Hong Kong is that the democratic movement succeeds before 1997. This is the fundamental solution to Hong Kong's problem.

Q: Let's turn to a future China under democratic rule. In order to achieve this, what has to be done? What priorities have you and the FDC set?

A: First of all, the press ban and the party ban should be lifted. After this the establishment of a multi-party system is our major goal. Only after this is achieved can we work on developing a free market with private ownership.

Q: Do you favor the total privatization of state enterprises?

A: Yes. However, it must be done step-by-step, especially in such areas as transportation and telecommunications.

Q: So you don't favor a rapid abandonment of Communism?

A: No, that's not what I mean. What I mean is that we should take into consideration what existed before. Too rapid a transition might cause social

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

instability. The best way to transform Chinese society, therefore, is through a gradual step-by-step approach in which the minimal social costs are incurred.

Q: I'd like to ask you about the attitude of the average Chinese person toward entrepreneurs and the free market. A *New York Times* correspondent in Beijing recently wrote that "most Chinese are reluctant to forsake their jobs and plunge into business, with its economic and political risks." Thus many of China's entrepreneurs are "social outcasts" who are unable to find work elsewhere.[8]

A: Well, this describes one aspect of Chinese society. Taking society as a whole, however, this is obviously one-sided.

It's true that some people don't want to take the personal risks and that they feel more secure within the present system, a system where everyone is eating from the big bowl of the state. However, you have to realize that two sides of the Chinese personality exist. There's a sense of security with the present system but there's also an awareness that prosperity is missing. These two wants cannot be both satisfied; one cannot have the security the state provides with a better standard of living. So what you have on the one hand are people who want to keep the security of the big bowl provided by the state but on the other hand these same people are cursing the big bowl because there's less rice in it!

I also don't think it's true that private businessmen are mostly social outcasts. Take me for example; I don't consider myself a social outcast! And there are a lot of people similar to me—people from the National Academy of Natural Sciences, returning students from overseas, and many peasants—all who have become successful businessmen.

Q: Won't you have some difficulties establishing a free market in the countryside, where egalitarianism has been backed up with generous policies from the Communist government?

A: I don't think that is true. The rural areas of China are the most deprived areas in the country. It's here that you will find the most dissatisfaction with Communist rule.

Q: What is China's economic potential? Could a democratic, free market China rival the U.S. or Japan one day?

A: Yes, certainly. Some people are already saying that the 21st century will be China's century. However, this will become a reality only if a democratic system is established in mainland China and good relations are developed between the two sides of Taiwan Strait. It's also dependent on properly settling the Hong Kong issue.

Look at Taiwan, for example. Taiwan is only a very small island, yet look at their economic strength, look at what they are capable of doing! Why can't a united China be even better?

Q: A final question. Recent events would seem to indicate that a democratic China is a distant goal. Beijing continues to hunt down and execute those involved with the pro-democracy movement while restrictions against the press and public demonstrations are strengthened. At the same time, recent events in Eastern Europe, especially Rumania—a close ally of Beijing under Ceausescu—show that anything is possible. Is a democratic government a long-term objective, or are you optimistic that Communism's days in China are numbered?

A: Personally, I think that democracy in China isn't far away on the horizon. And I hope that it can be achieved by peaceful means.

There's plenty to suggest that a democratic China is not a distant objective. For example, practical businessmen like me are involved in the democratic movement. As practical businessmen and entrepreneurs looking for a good investment, this in itself signifies that it's possible! □

1. From an interview with Shen Tong, *The Face,* December 1989.
2. Wan Dan was arrested by the authorities after the crackdown.
3. "Exiled Chinese Students Face Uncertainty and Guilt in the U.S.," *International Herald Tribune*, December 27, 1989.
4. "China Shuts or Limits Millions of Enterprises," *International Herald Tribune*, August 12, 1989.
5. *Ibid.*
6. "Austerity Plan a Blow to China's Booming Coast," *International Herald Tribune,* December 26, 1989.
7. "China Defends Austerity Campaign," *International Herald Tribune*, November 20, 1989.
8. "Entrepreneurs, the Wealthy Outcasts of Beijing," *International Herald Tribune*, November 17, 1989.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Real Case Against Taxes

by James L. Payne

If we hate taxes so much, why do we keep on approving them? We've just had an episode in Sandpoint, Idaho, where I have lived for several years, that points up the paradox. Civic leaders proposed a 2 percent tax on restaurants, bars, and hotels, with the revenues to be used to beautify the city and attract tourists. Devising this new tax and urging citizens to vote for it were many of the town's business leaders—the same people who normally deplore government tax-and-spend programs!

What accounts for the inconsistency? The answer is that their opposition to taxes, like the opposition of most Americans to taxes, is shallow. Based on the wrong argument, it crumbles time and again. A century of this flawed debate has left us with the mammoth government we have today.

The argument that most people use against taxes is self-interest: taxes cost *us* money. This point is good enough in the abstract—who wants to be made poorer?—but it breaks down when it comes to specifics. On program after program, we discover that the tax money is to be spent on community services and improvements. These are improvements that we, too, approve of—like beautifying the town. Since most of us are at least somewhat public-spirited, we agree to the additional tax.

But the real case against taxes doesn't rest on self-interest. It rests on altruism, on a concern for the health and prosperity of the community. For in the long run, most taxing and spending programs turn out to be harmful in three important ways.

First, because tax monies flow in automatically, government agencies face no day-to-day discipline of the market. The result is a consistent pattern of inefficiency. Studying this issue, economists James T. Bennett and Manuel H. Johnson have come up with the "bureaucratic rule of two": on average, anything a government agency tries to do costs twice as much as a private, market-controlled provider. Hence, tax-and-spend programs are a way of destroying wealth, a way of impoverishing the community. The scandals, corruption, and waste we read about in our daily newspapers are the fruit of this system that separates donors from their donations.

A tax system destroys wealth in a second way: in the collection process. In this highly legalistic day and age, tax systems involve forms and instructions, regulations and reporting requirements, enforcement systems, penalty procedures, appeals, and litigation. In addition, tax collection systems impose losses by discouraging work, savings, and investment, and by channeling effort into tax avoidance and evasion activities. My study of the Federal tax system shows that the overhead costs of operating this system amount to between 60 and 70 cents additional burden for each tax dollar collected. This monetary figure does not count emotional and moral costs, which include abuses of power by the bureaucracy, the frustration of dealing with red tape, and the fear of doing something "wrong" and being treated like a criminal.

Finally, perhaps the most important objection to a tax-and-spend program is that it undermines the spirit of helpfulness and community pride. To its promoters, a tax seems attractive because it guarantees automatic funding for a well-intended project. They don't have to go around urging people

James L. Payne is a Research Fellow at the Independent Institute in San Francisco. He is writing a book on the overhead cost of taxation, Hosting the Federal Banquet.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to be public-spirited, appealing to their generosity. The problem is turned over to government officials who presumably "fix" it, and the rest of us can go back to our personal pursuits.

The flaw in this approach is that social generosity is like a muscle: if you don't use it, it weakens. The more functions you turn over to government, the weaker becomes the conviction that society depends on consideration for others. And that means we all suffer. When the spirit of helpfulness recedes in a society, our lives become more difficult in scores of ways: help is harder to find in an emergency, debtors can't be trusted to pay their bills; businesses from auto repair to brokerage houses begin to cheat their clients; clerks are surly and uncooperative to customers; everybody spews out as much pollution as they can get away with, heedless of the effect on their neighbors; crime inches up; vandalism takes over. It's no accident that in the welfare state, public morality goes down.

If you want to live in a caring, helpful society, you have to teach that caring, helpful people are needed to solve its problems. And that means turning away from government and its coercion-based tax system as the problem-solver.

This "real" case against taxes does have an implied obligation, however—one that critics of taxation often overlook. If you say government programs are harmful, consistency demands that you support the alternative: voluntary methods of addressing community problems. When fund-raisers for the local beautification campaign come to your door, don't say, "Isn't the government supposed to take care of that?" Pitch in and help. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Eastern Europe: The Economic Stakes Are High

by Gary V. Small

History is being made with astounding speed in Eastern Europe, as one Communist regime after another seems to be capitulating to the will of the people. After 45 years of cold war, and with the apparent blessings of the Kremlin, several major Eastern European countries appear to be racing each other to embrace the benefits of democracy and capitalism.

If Eastern Europe's march toward capitalism continues at anything near its current pace, the world's economy could undergo major, even drastic, changes.

The first effects of the events within the Warsaw Pact already are being felt. Since the end of World War II, the economies of the United States and its NATO allies have been on a partial war footing, building armaments to protect Western Europe against a possible Soviet invasion. This sector of the U.S. economy is sure to contract in the wake of a more peaceful Europe. News stories already have appeared about Pentagon plans to cut back major programs, mothball naval vessels, and demobilize some military units.

We can expect to see layoffs in the defense industry as well as bankruptcies among companies that depend upon defense contracts. Given the speed of current events, defense contractors are going to have little time to diversify into other areas, making the impact of expected budget cuts even greater.

Beyond the relatively obvious effect on the defense industry, we must analyze the possible impact of a capitalist Eastern Europe on the economies of the free world. If present trends continue, several powerful economies may suddenly be added to the world scene. Depending upon the results of the democratic movements in these countries, the impact on the world economy could range from trivial to dramatic.

If the movement toward capitalism succeeds, the countries of Eastern Europe could be the economic miracles of the next several decades, becoming the new Japan, Korea, and Taiwan of the early 21st century. In fact, they could build up their economies even faster. They have no devastating war to recover from, and an educated and skilled labor force is already in place. The motivation to work for profit and a better life certainly seems to be present. The current standard of living is low by Western standards, with frequent shortages of even the most basic products. Given these conditions, we can expect that, at least for a while, a low-cost pool of skilled labor will be available to fuel new economic development. Unshackled from socialism, Eastern Europe could become a major consumer and producer of manufactured goods on the world market.

As conditions now stand, however, it is unlikely that Eastern Europe will become a major consumer market, although many a Western European manufacturer already is looking east with a gleam in his eye. The economies of Eastern Europe are a mess, undoubtedly a major contributing factor to the current political upheaval. While we may see a short buying spree, particularly of personal consumer items, the supply of hard currency in these countries won't support a long-term flow of goods across the border. Many of these countries already are heavily indebted to

Mr. Small is a computer engineer in Manchester, New Hampshire.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Western banks, and the relative trickle of goods across the new open border between East and West Germany already is having a detrimental effect on the value of the East German *mark* on the black market.

Although they may soon run out of money, the people of Eastern Europe do have a healthy appetite for Western goods. Their economies are a shambles, but a trained, low-cost work force with a desire to improve its standard of living is an excellent starting point for a massive economic expansion. Without a true capitalist society, however, very little can be accomplished.

Affirming Private Property

The advancement of capitalism in Eastern Europe depends upon the recognition of private property rights and contractual law by those in power. Investors must be allowed to own property, be able to have faith in the legal system, and be permitted to take profits out of the country. Opening up Eastern Europe to free enterprise will bring in much-needed capital from foreign investors, provide lessons in business and technology to the local work force, and create opportunities for local start-up companies that will be needed to support the factories built by foreign investors.

Foreign involvement is needed for several reasons. First, foreign investors have the capitalist know-how to set up productive businesses. They have access to, and detailed knowledge of, Western markets. And perhaps most important, they have access to the hard currency and financial resources of the West. Restricting investment to residents would result in a much slower and less efficient buildup of the economy, with far more failures due to the trial and error nature of such a buildup.

Once production and exports are increased, Eastern European economies will start to earn hard currency that can be reinvested in local businesses so as to bolster the country's ability to produce for its own needs; or the money can be used to buy consumer goods, raw materials, and capital goods from abroad.

Western Europe, because of it cultural ties and geographic proximity, will feel the major effects of any economic expansion in the East. If, for example, substantial new loans are made to Eastern Europe, it is likely that a large flow of goods will begin to move from West to East, and profits of Western manufacturers will climb. In order to pay off the loans, however, productive enterprises will have to be developed quickly in the East. This period of development will provide another opportunity for Western companies in the form of low-cost production facilities close to major Western European markets. This, in turn, could lower the price of European products and make them more competitive with Asian products, in both European and American markets.

The down-side of this would be some loss of manufacturing jobs in Western Europe. In addition, Eastern Europe might become more attractive for investment than Latin America or Africa. This could result in a decline in new investment in those areas. In the longer term, however, Eastern Europe is likely to become integrated into the existing European economic system. When the standard of living and labor costs in Eastern Europe reach a par with the rest of Europe, the tide of investment will turn outward again. A larger pool of European industrial and business concerns will once again be looking at Third World countries for new investment opportunities.

On the opposite end of this spectrum of possibilities is the vision of an Eastern Europe reduced to a charity case and dependent upon handouts from the industrialized nations, much like many Third World nations that overdosed on socialist policies. The people of Eastern Europe have lived under a Big Brother socialist system for a long time, and may not be willing to give up the security blanket of a welfare state for a competitive system in which they sink or swim on their own merits. The laziness that is bred and nourished by government guarantees of job security, minimum wages, subsidized housing, and other such "benefits" is a powerful counter to the sow-what-you-reap philosophy of capitalism.

The costs of socialism are often hidden from the man on the street, who doesn't see the lost opportunities, the lost discoveries, and the lost standard of living that might have been achieved under a capitalist system. Socialism provides an illusion of something for nothing while the economic system feeds on itself. Without the growth stimulated by some degree of capitalism, socialism eventually collapses, as it is now collapsing in Eastern Europe.

The scenario of a democratic, but socialist and impoverished Eastern Europe also could have a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

major economic impact on the industrialized West. In this case, we might see massive amounts of foreign aid poured into Eastern Europe. In this scenario, it wouldn't be Western companies investing in new production facilities, but rather Western governments pouring in tax money to prop up the new Eastern European governments. This would add enormous amounts of debt to the world's balance sheets. This money, like the loans to many other governments, would likely never be recovered. The resulting defaults and write-offs, combined with existing bad loans, could contribute to an economic calamity of global proportion.

The most likely scenario for Eastern Europe is a mixed economy, retaining socialist qualities while adopting some capitalist attributes. The government control inherent in the socialist philosophy is something that appeals to politicians and bureaucrats of every persuasion. If, however, capitalism is adopted with the fervor of a religious conversion, the industrialized world and newly developed nations could see both profits and competition from Eastern Europe in the not-so-distant future. Capitalism adopted as a reluctant admission of the failure of Communism, however, will result in a relatively stagnant Eastern Europe, with the same problems that plague many other nations with controlled economies. □

The Message from Eastern Europe

by William H. Peterson

"*Kommunismus ist kaput!*" So one East Berliner declared to an American journalist. But is Communism really finished? If indeed the Cold War is over, has it been in fact "a famous victory," as poet Robert Southey put it in his "Battle of Blenheim"? Or, has Communism simply passed into a phantasmagoria of deceptive guises, with the ghosts of Karl Marx and Friedrich Engels smiling at the passage and commenting "Leftward, ho!" on the scene?

Eastern Europe is sending us a message. No one questions the fact that Communism has proved for decades a bitter failure in the lives of East Europeans who at long last have revolted against the system. Still, apart from the people of the East, do the people of the West themselves read the situation correctly and understand just why Marxism failed?

And, equally important, do their respective governments so understand—Western governments which practice interventionism galore, which continue to control and control, inflate and inflate, tax and tax, spend and spend, and elect and elect, but with negative repercussions on economic growth and, more importantly, on individual freedom and national viability?

Clearly the problem of the West is no longer hard socialism—the outright socialism of Karl Marx involving the ownership of the tools of production a la Joseph Stalin and Leonid Brezhnev. Overt Marxism is dead. Eastern Europe testifies to that. Rather, I submit, the problem of the West and the Third World is covert Marxism, the *soft social-*

Dr. Peterson, Heritage Foundation adjunct scholar, is the Lundy Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina. This article is abstracted from his remarks presented in Mexico City on December 6, 1989, at the invitation of El Centro de Estudios en Economía y Educación, A.C., and its president, J. Rolando Espinosa, of Monterrey, N.L., Mexico. The occasion was a press conference on the Center's publication of La Falacía de la Economía Mixta Mexicana (The Fallacy of the Mixed Mexican Economy) *by J. Rolando Espinosa, Ludwig von Mises, and Oscar H. Vera.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ism of the welfare state and market interventionism—government interference with prices and production, from rent control to import tariffs, from affirmative action to fuel-economy standards for auto manufacturers.

This half-way, middle-of-the-road soft socialism, popularly known as "the mixed economy," is precisely of the tactical kind prescribed by Karl Marx and Friedrich Engels in 1848 in *The Communist Manifesto*. There, Marx and Engels state baldly: "The theory of the Communists can be summed up in a single sentence: Abolition of private property." There, while espousing the violent overthrow of capitalism, they also deploy ten interventionist traps, including the progressive income tax and "free" public schools, to hasten that abolition and quite possibly, as they say, "win the battle of democracy."

Their theme, their ploy, of initial interventionism, of state direction and mushrooming government controls—so as to prepare the way for an economic *coup d'état*—has been reiterated and reinforced a thousand-fold in the West since 1848. Mostly unwittingly. Consider, for example, the following statement by Senator Hubert Humphrey of Minnesota innocently espousing welfarism—what I call soft socialism—before a Harvard Law School Forum on March 24, 1950: "The greatest threat to the free enterprise system in America is not Social Security, minimum wage, aid to education, rural electrification programs, and the like. The greatest threat to free enterprise is growing monopoly in America."

To validate his charge of monopoly, Senator Humphrey cited Anaconda Copper as controlling "almost half the capital assets of the whole industry [while] another quarter of the capital assets of the copper industry is controlled by Kennecott Copper Corporation."

But I note that in the four decades since that statement, vigorous inter-modal competition has set back copper—the use of aluminum for long-distance electrical transmission, for example, or glass for fiber optic transmission of telephone messages and data. Too, Senator Humphrey ignored the impact of consumer sovereignty on his purely *domestic* copper monopoly scenario. Did he think that big copper consumers like GM and AT&T would simply roll over and play dead, when other major copper producers are readily available across the globe—in Canada, Mexico, Australia, Africa, and South America, for example? In addition, both Anaconda and Kennecott have disappeared in takeovers. Some monopoly!

In any event, it is clear that American interventionism, including antitrust, has legions of well-meaning advocates along with millions of its supposed beneficiaries such as Social Security recipients. Parallel support can be seen throughout the West. Soft socialism is conventional wisdom.

The Fabians

But for many of interventionism's at-heart Marxist proponents here and abroad, it reflects a sly Fabian tactic. Recall Quintus Fabius Maximus Verrucosus, the shrewd Roman general who was known as the Cunctator—the Delayer. He opposed the renowned Hannibal of Carthage not by a head-on bloody confrontational battle but by long, drawn-out delaying tactics and occasional sharp lightning flank attacks.

Years and seeming procrastination and indecisiveness sapped Carthaginian morale and supply lines in the field and at home. Despite some victories, notably at Cannae in 216 B.C., Hannibal never was able to take Rome itself and was ultimately recalled by a weary Carthage. In the end, then, Fabius won through masterly wearing down his foe, even though he too was replaced with another general by a Rome similarly tired of lack of outright victory.

Fabius, in a way, inspired the formation of the Fabian Society, a group of British political activists who derived their name from the Cunctator and promoted evolutionary (read interventionistic) as opposed to revolutionary socialism in England. Founded in 1884 by Beatrice Potter, Sidney Webb, and others, the Society specifically rejected the Marxist call for a violent class struggle, attracted such literary luminaries as George Bernard Shaw and Lytton Strachey, and played a leading role in the creation of the Labour Party in the early 20th century. The rest, as the saying goes, is history.

So, not withstanding the breakup of Eastern Europe, what might yet prove to be the ultimate Fabian triumph of Marxism through expanding interventionism in the West may prove more immediately to be something of a rude awakening for some half-million East Germans fleeing out-and-out Marxism for West Germany.

There these refugees will not find, 45 years after

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

V-E Day, all the freedom and free enterprise they may have envisioned behind the Berlin Wall. Ludwig Erhard, founder and visionary of the postwar "German Economic Miracle," is no more. The social democrats and their philosophy of welfarism and what the French call *dirigisme* or indicative planning are in. And therein lies the danger. Marxism is anything but dead; it is breathing and suffused into Western public policy. As the ultra-liberal *Nation* put it in a lead editorial last fall: "The exodus of thousands of youthful East Germans across the Austro-Hungarian border cannot be interpreted, as some Western commentators would have it, as an abandonment of the teachings of Karl Marx. To be sure, the emigrants are hoping for a better life than they found under the East German regime. But the country to which they are . . . traveling is not Thatcher's Britain or *après* Reagan America. . . .

"Both in the time of the Weimar Republic and under the present government, the Social Democrats altered the features of capitalism. By leaving East Germany the new emigrants have chosen capitalism with a human face. Its humanization was and is the work of the party that Marx founded. And so the newcomers have gone from Stalin back to Marx."

Nationalizing the Fruits of Production

Back to Marx? The Left toys with us. Still, I recall the American economist W. Allen Wallis saying that while today's neo-socialists in the West may not have succeeded in nationalizing the tools of production, they have certainly gone far in nationalizing the fruits—i.e., the income—of production. The welfare state seizes income via taxation and redistributes it like Robin Hood. Alas, the welfare state dominates the West.

For example, the U.S. Government dispenses some 38 million checks a month for Social Security alone, with massive political implications. And counting all its transfer payments—these are, by definition, payments for which Uncle Sam receives no goods or services in return—I find that more than half of the U.S. $1.2 trillion budget, or $620.5 billion, as of the second quarter of 1989, is expended on transfers.

Obviously the constituencies collecting these goodies are very powerful indeed. And obviously, too, this is hardly capitalism in action but, as I say, soft socialism coexisting with, and serving as a drag on, our market economy.

So you can readily see that this soft socialism is marked by vast government spending growing throughout the West. Leading this dubious race is Sweden, which according to figures supplied by the Organization for Economic Cooperation and Development (OECD), spends some 60 percent of its Gross Domestic Product on government programs.

Average member-country government spending in the European Community rose from 36 percent of Gross Domestic Product in 1967 to 51 percent in 1987. Canadian government spending jumped from 32 percent in 1967 to 46 percent in 1987, while even Japanese public spending shot up from 18 percent to 33 percent. Comparable U.S. total government spending was 37 percent in 1987, a figure suggesting, in a sense, America is better than one-third socialized. In contrast, total U.S. government spending—Federal, state, and local—amounted to but around 10 percent in 1929. Thus does Fabian soft socialism march onward and upward.

Marching Toward Greater Soft Socialism

Why, then, this march toward greater and greater soft socialism? Why now when economist Ludwig von Mises demonstrated as far back as 1920 that socialism, hard or soft, cannot function without a viable price system, without, to use his phrase, "economic calculation"? Why now when Mises demonstrated—and experience shows—that every government intervention into peaceful private activity tends to make things worse rather than better? Why now when we witness the breakdown or outright failure of hard socialism in Eastern Europe?

Failure conceded, as East Europeans vote with their feet or bring down Communist parties that have ruled over them since the end of the Second World War. Failure further conceded, as witness the concession of economist Robert Heilbroner, longtime socialist sympathizer, author of the best-selling book *The Worldly Philosophers*, in *The New Yorker* in January 1989: "Less than 75 years after it officially began, the contest between capitalism and socialism is over: capitalism has won."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

But victory receding? I say, "Yes," in light of the entrenchment of soft socialism in the West. Consider further the why of soft socialism's quiet victory. In modern democracies, conventional wisdom—the Zeitgeist of our age—is at base *anti-capitalism*; and, however modulated, however transmuted and sometimes jargonized into "democracy," it is this thinking which gives rise and growth to welfarism ("the social safety net") and its half-brother, interventionism. After all, how many world leaders come out four-square for capitalism? Especially in the Western democracies?

Here politics subtly transcends economics. For as economists James Buchanan and Gordon Tullock have long reminded us, logic and experience in winning intellectual battles are not enough. Public choices by voters, legislators, and bureaucrats tend to spring from self-interest to counterproductive ends. Look at what decades of intervention and inflation have done to Argentina, for example, indeed to all Latin America.

Thus do modern democracies inflict interventionism on themselves and bleed from resulting myriad interest groups seeking and frequently getting quasi-monopolistic "rents," to use the Buchanan-Tullock word. These rents arise from government dispensing all manner of special privileges and perquisites—the stock-in-trade of legislators and officials who dance a quid-pro-quo tango with voters organized into powerful lobbies.

Look more closely at this interventionist virus in our body politic. The essence of soft socialism is, as I say, interventionism. Interventionism is government interference in economic activity, certainly to augment political ends, but nominally to advance the public interest.

To many of its naive proponents it represents the third way, a middle way, a melding of the "best" of socialism with the "best" of capitalism into, again, soft socialism. The question is, however, who is to decide on what is the best of each system. And of course the answer is: Government knows best.

Childs' "Middle Way"

Syndicated newspaper columnist and self-described pragmatist Marquis Childs took that line in his book entitled *Sweden: The Middle Way* published in 1936. John Maynard Keynes and his paradigm-setting *The General Theory on Employment, Interest, and Money*, also published in 1936, took that same line. Keynes argued that government should manage macro-demand through fiscal policy so as to achieve "full employment." Today the West and the Third World still pretty much take that line, though the stardom of Keynes as the premier economist of the 20th century has in recent decades lost its luster.

Back to Marquis Childs. In 1947, in introducing a paperback edition of *Sweden: The Middle Way*, he said: "Capitalism in [Scandinavia] was modified and controlled, its excesses curbed, by much more realistic methods than those of government regulation. In many fields the profit motive has been drastically restricted or even abolished. More nearly than in any other part of the world the test has been the greatest good for the greatest number."

Does interventionism involve the greatest good for the greatest number? Indeed, what does it involve? Said Mises in *Human Action* (1966): "The authority interferes with the operation of the market economy, but does not want to eliminate the market altogether. It wants production and consumption to develop along lines different from those prescribed by an unhampered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of violent compulsion and coercion stand ready."

The Mises point on compulsion and coercion is important in understanding the modus operandi of interventionism. He is saying that those who ask for more interference are asking for less freedom, less democracy, for more politicization of the social system.

Too, because corruption is a regular effect of interventionism, they are also asking for, however inadvertently, still more corruption. Corruption ensues because favoritism cannot be avoided. Under interventionism, marketplace democracy is foregone. Discrimination supersedes. The public authority must pick and choose, and political factors are virtually impossible to ignore.

Consider, for example, public pensions for the aged, with millions looking to the state for their monthly check, with parties and candidates courting their vote and frequently getting into a bidding competition to boost the pension so as better to "protect our senior citizens from the ravages of old age," adding, "and from the ravages of infla-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion"—but not adding that inflation is itself a result of interventionism.

Or note, for another example, the issuance of import and export licenses. Such a license has a cash value. It is like a commodity in trade. Whether cash passes over or under the table is beside the point. The licensee is expected to do his part of what amounts to a quid pro quo. Most likely he is expected, at a minimum, to work for the party in power, i.e., the party issuing the license.

When the advocates of interventionism are reminded of practically inevitable corruption, they are often inclined to dismiss it with a shrug. Better, they say, that the "right" things be done publicly rather than the "wrong" things be done privately—which would occur, allegedly, if the happenstance and planlessness of the private market were involved.

Yet clearly when the standards of right and wrong are left to the government to decide, corruption and the politicization of standards follow; the democracy of the marketplace, i.e., of the sovereign consumers, of the people themselves, is denied. Interventionism is inherently undemocratic, inherently corrupt, inherently unstable, inherently inefficient.

Please note the use of the words "happenstance" and "planlessness" above. It relates to the charge that capitalism or the market system is planless, haphazard, mechanical, without direction. The pejorative term "laissez faire" of conventional wisdom about sums it up. Too, free market systems are similarly charged as being without, again, a "social safety net." Perish the thought that mindless, planless, helter-skelter forces should jeopardize the security of society and its individual members. In Britain interventionism in the form of welfare planning covers the cradle-to-the-grave.

But is the alternative: plan versus no plan? Is the issue between a dead mechanism and conscious planning? Is not the crucial question, asked Mises, just whose planning? He maintained the real issue is freedom versus government omnipotence —what his student, Nobel Laureate in Economics F. A. Hayek, calls the pretense of knowledge, the fatal conceit. As Mises put it in *Human Action* (1966): "Laissez faire does not mean: Let soulless mechanical forces operate. It means: Let each individual choose how he wants to cooperate in the social division of labor; let the consumers determine what the entrepreneurs should produce. Planning means: Let the government alone choose and enforce its rulings by the apparatus of coercion and compulsion."

This is not to denigrate out of hand the government apparatus of coercion and compulsion. We the people are not angels. We grant to the state a monopoly of force so as to suppress predators within and without. We equip it with prisons, billy clubs, electric chairs, armed forces—in an word, power.

But, alas, power anywhere has a way of corrupting, as Montesquieu and Acton taught us; and wisely the American Founding Fathers attached a Bill of Rights to the U.S. Constitution, put limits on governmental power, on political democracy, and specified in the Ninth Amendment (today mostly mothballed) that those rights enumerated in the Constitution "shall not be construed to deny or disparage others retained by the people."

Clearly the Founding Fathers worried, rightly, about who guards the guardians. They said government functions best under, in the words of the Declaration of Independence, "the consent of the governed."

Ah, consent. That's the word. It signifies both economic and personal freedom. Alas, it's a word lost in the lexicon of modern democracy and public policy, so very much subject to what Tocqueville and Acton termed "the tyranny of the majority," which most often works out to be a coalition of minorities.

I say: We should restore that word "consent" and its spirit if we wish to get at the core of interventionism, of what I am calling soft socialism. We should see that if hard socialism is a failure, so is soft socialism. The mixed economy is the mixed-up economy. So to me the message from Eastern Europe is this:

Avoid Fabianism and interventionism—soft socialism in all its covers—like a plague. Reaffirm the rule of law, the integrity of contracts, and other private property rights. Return power to the people, to the individual. Return to limited government and market capitalism—i.e., to freedom and free enterprise. And lay Marxism to rest once and for all. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

John Arbuckle: Entrepreneur, Trust Buster, Humanitarian

by Clayton A. Coppin

The importance of the entrepreneur to the spectacular growth of the American economy in the late 19th and early 20th centuries is now widely understood. The contributions of John D. Rockefeller, Andrew Carnegie, and J. P. Morgan are well known.

There are other entrepreneurs, however, whose names and achievements are not so familiar. Among the forgotten is John Arbuckle, whose recognition as an outstanding entrepreneur and humanitarian is long overdue. He deserves equal recognition as one who fought against monopolistic practices, and who relied on his own business skills rather than government regulation to compete.

John Arbuckle was born in Allegheny City, Pennsylvania, near Pittsburgh, in 1838. His father, Thomas Arbuckle, immigrated to western Pennsylvania from Scotland as a young man and became the successful operator of a cotton mill and a small grocery and spice business. John attended public school in Allegheny and Pittsburgh, and he attended Washington and Jefferson College for a short time. But formal education held little appeal for him. He was more interested in business, so he dropped out of school to enter the grocery business with his brother Charles.

John and Charles Arbuckle soon expanded into the coffee roasting business. At the time, coffee was roasted and stored in bulk. The grocer would scoop out the amount desired by the customer and place it in a smaller package. This method had disadvantages—coffee left open in the air after roasting deteriorated rapidly; high quality and low quality were mixed together; it was easy to adulterate; the grocer's scale wasn't always reliable. The Arbuckles found a way to avoid these problems. They roasted coffee and wrapped it in individual packages of uniform weight and quality. They could sell different grades of coffee at different prices, and guarantee the weight and quality of their brand-name product.

Their business grew quickly, and in 1871 they moved to New York City and formed the Arbuckle Brothers Company. Business continued to expand, and at one point they employed 50 women just to wrap the coffee. John felt that manual wrapping was inefficient and that operating costs were too high. He saw the packaging process as a bottleneck and sought a way to eliminate it. With the aid of a draftsman and a machinist, he invented a machine that would fill, weigh, seal, and label the bags in one continuous operation. Once installed, the machinery increased the production tenfold, doing the work of 500 wrappers.

With the increased production, the Arbuckle brothers expanded their distribution, improved their procurement system in coffee-producing countries, and began an aggressive advertising campaign. They quickly developed a national market and became the dominant coffee company in the United States. Particularly popular was their Ariosa brand, which was a coffee bean glazed with

Clayton A. Coppin is a Research Consultant at the Center for the Study of Market Processes, George Mason University, Fairfax, Virginia. *An earlier version of this article, with full footnote citations, appeared in the spring 1989 issue of* Market Process, *published by the Center for the Study of Market Processes.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a sugar and egg coating. The egg was supposed to cause a quick settling of the grounds, and the sugar added sweetness to the already high quality of the coffee. Whatever the virtues of Ariosa, the product's reputation for consistency and quality led to further expansion of market share.

Seeking a New Market

Having won much of the coffee market, the brothers sought a new market for expansion. John Arbuckle developed and patented a machine that automatically filled and sealed sugar bags. They made an arrangement with Henry O. Havemeyer, who controlled the American Sugar Trust, to produce sugar in two-pound bags. Once again they found a ready market for their packaged goods, and made substantial inroads in the retail sugar market.

Charles Arbuckle's death in 1890 didn't slow the company's growth, but Henry Havemeyer was soon to try. Havemeyer had become the leading force in the American sugar refining industry, driving all but a few small companies out of business. Havemeyer realized that if profits were too high it would invite new entrants into the field. He attempted to avoid this by keeping prices reasonable, by making rebate agreements with the railroads, and by arranging for price maintenance with wholesale grocers.

Havemeyer kept ahead of the competition for several years until a conflict erupted with Arbuckle. What exactly led to the break isn't known. Perhaps Arbuckle wanted a lower price because of his volume buying, or, more likely, Havemeyer, seeing Arbuckle as a growing competitor, raised Arbuckle's price for refined sugar. Whatever the exact cause, Arbuckle announced his intention to build a sugar refinery. Havemeyer had no intention of allowing new competition in the sugar refining business. The resulting battle would become one of the legendary competitive struggles in American business history.

Arbuckle broke ground in Brooklyn in January 1897 for his sugar refinery, but it would be nearly two years before it was producing. Meanwhile Havemeyer decided to retaliate by entering the coffee business. He purchased controlling interest in the Woolson Spice Company in Toledo, Ohio, and immediately started lowering prices. Arbuckle responded and the price quickly dropped until both companies were selling below costs.

The battle was not to be fought on the price front alone. Havemeyer advertised heavily, obtained rebates from railroads, and attempted to keep wholesalers from handling Arbuckle's product. International shipping was dragged into the battle when Havemeyer managed to obtain shipping rebates. Arbuckle responded by buying his own ships. Havemeyer made inroads into the coffee market, but at a very high cost.

Havemeyer was unable to stop Arbuckle from entering the sugar business and, when Arbuckle's refinery started producing in late 1898, the price war extended to sugar. Both companies were now losing money in sugar and coffee. Havemeyer was receiving rebates from the railroads for the sugar he shipped as well as on what Arbuckle shipped, and he attempted to control the wholesalers by threatening to break the price maintenance agreements with them if they carried Arbuckle's sugar.

Havemeyer would seem to have had the advantage in the sugar fight. However, although both companies were selling at a loss, Havemeyer's greater market share led to higher losses. In addition, since Arbuckle alone sold sugar in small packages, he was able to obtain a higher price per unit and suffered smaller losses. Arbuckle challenged Havemeyer's control of the wholesalers by selling directly to retailers, and eventually forced the wholesalers to cooperate to avoid being bypassed. Arbuckle gained another advantage by hiring Joseph Stillman, a former employee of Havemeyer and the leading expert on sugar refining in the country. Stillman designed and built Arbuckle's refinery using the latest technology, which produced a superior product at a lower cost.

The End of the War

The battle over sugar couldn't continue indefinitely with the size of the losses both companies were sustaining. No record has been found of a settlement, but sometime in 1901, after Havemeyer and Arbuckle held a private meeting, the price war in sugar ended. Havemeyer accepted Arbuckle's presence in the sugar refining business and made no further attempts to drive him out. To recover from the loss, however, both companies substantially increased their prices, which quickly led to additional entry, most notably by Claus Spreckels. Havemeyer's companies would continue to hold a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

strong market share, but the days of his domination of the industry were over.

Arbuckle was more clearly the victor in the coffee battle. He had managed to obtain a few shares of the Woolson Spice Company and through a stockholders' suit forced the company to stop selling at a loss. Prior to this, however, an interesting episode emerged during the battle in Ohio. In early 1901, Edward Beverstock, a food and dairy inspector in Toledo, charged a retailer selling Arbuckle's Ariosa coffee with violating Ohio's pure food law. Arbuckle was charged with adulterating his coffee beans by adding the egg and sugar glaze for the purposes of increasing the weight and covering up inferiority. Arbuckle had attempted to meet all requirements of the law, carefully labeling his product and having it analyzed for purity. Who or what was behind the charges isn't known, but the timing and subsequent events suggest Havemeyer might have been involved.

The trial was held in Toledo, and in spite of expert testimony for the defense from scientific witnesses such as Harvey Washington Wiley, Chief Chemist for the U.S. Department of Agriculture and the nation's leading advocate of pure food, the jury found Arbuckle guilty. The appeals court reversed the conviction. They found that the jury had been improperly selected, that individuals closely associated with Inspector Beverstock and his son had been placed in the jury pool, and that the judge had erred in not allowing the defense to challenge the way the jury was selected. The Appellate Court also found that Ariosa coffee wasn't covered by the statutes under which the original complaint had been made. Arbuckle was cleared of all charges. The numerous irregularities in the trial would seem to indicate that more was involved than protecting the consumer in Ohio.

While Arbuckle clearly entered sugar refining for commercial reasons, he objected to organizations which were formed to obtain monopoly profits. He did not, however, believe that government interference was the solution. He preferred to call on his own abilities and finances to challenge monopoly control of a market. His entry into these markets resulted in the breakup of the monopolies without government interference.

The fight with the sugar trust was the most spectacular of Arbuckle's challenges to monopolies, but not the only one. Earlier he had challenged and successfully overthrown the towing monopoly which controlled traffic on the Erie Canal. In 1901, as his fight with Havemeyer wound down, Arbuckle turned his attention to the tugboat monopoly on the Hudson River. Deciding that the rate of $50 for a tow from New York to Albany was excessive, he entered the market. The price of towing quickly dropped, reaching a low of $5. One barge owner reportedly said, "They'll be giving trading stamps next." Another barge owner claimed that he had been offered money to have his boat towed up the river. The final outcome was a permanent lowering of towing costs.

John Arbuckle's fights against trusts demonstrate the power of the entrepreneur to challenge those who would restrict entry into markets. He didn't seek government intervention and regulation of the market. There is a great difference between an entrepreneur who breaks up a trust by open competition, and a businessman who tries to hamper his competitors by complaining to the Department of Justice or the Federal Trade Commission. The entrepreneur provides a public service by improving a product or lowering prices. The complainer usually hampers the efficiency of those he cannot compete with in the open market. Today, over two-thirds of antitrust cases in the United States are initiated by competitors who cannot meet the superior efficiency of their rivals. Far better that they would follow the example of Arbuckle, who used his inventive, organizational, and commercial abilities to challenge those who wanted to limit competition.

Arbuckle as Philanthropist

However, there was more to John Arbuckle than just his business accomplishments. He also had a remarkable record as a humanitarian. For many years in Brooklyn he was a member of the congregation of the Plymouth Church headed by Henry Ward Beecher, the noted reformer and the brother of Harriet Beecher Stowe. He shared Beecher's concern for his fellowmen, and he brought to his humanitarian concerns the same genius he displayed in his commercial activities.

Arbuckle's inventiveness involved him in several efforts to help New York City's needy. Convinced that overcrowding, bad air, and the hustle and bustle of city life were bad for health, he financed several projects to help people escape from city life. The most fanciful of these was the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

outfitting of several ships with rooms, recreational facilities, and dining rooms, then towing them out to sea at night. The plan was to give people who couldn't otherwise afford to escape from city life the benefits of fresh ocean breezes and a sound diet. The scheme was short lived, but the ships, tied to the docks, continued to be used for charitable purposes providing shelter, low-cost meals, and job training sites to the needy for many years. One boat was converted into the Riverside Home for Crippled Children.

On Lake Mohonk north of New York City he built a retirement colony for older citizens who needed assistance, and a hotel for those who needed fresh air and nutritious food. He also built hotels for workers who needed to be out in the open, and hotels for the handicapped to learn a trade. Arbuckle seldom gave to established charities, preferring to experiment with his own ideas.

As a result of the Ariosa coffee case, Arbuckle became a friend of Harvey W. Wiley and developed an interest in the pure food movement. His interest, however, was not to support regulation, but to try to establish a company to produce pure and nutritious food with Wiley as the company's head. Arbuckle several times made offers to Wiley to finance the business, but Wiley never took up the offer. On Wiley's suggestion, Arbuckle did establish an independent sugar testing laboratory to monitor the quality of sugar in the American market.

Arbuckle, even in his old age, was interested in new and inventive ideas and willing to take on new ventures. Following the end of his fight with Havemeyer, Arbuckle became interested in the ship salvage business. He was attracted to the work of two Canadians, R. O. King and William Wotherspoon, who developed a method for using compressed air to refloat ships. He contacted them and began salvaging ships that others had regarded as impossible to refloat. He offered to go to Havana Harbor and raise the battleship *Maine*, but his offer was refused. He wanted the government to establish a warning system so that a ship in distress could call for help and salvage vessels could rush to its aid, but the government wasn't interested. Arbuckle proceeded to establish his own system and rescued several ships.

Arbuckle later spoke out strongly against the duties on sugar, arguing that the duties were only for the benefit of the sugar beet interests and at the expense of all other Americans. He pointed out that sugar was used by the rich and poor alike, and the added expense was felt most by the poor. To charge duties on sugar, Arbuckle argued, was a case of the government literally taking candy from babies. In 1911 he announced his intention to fight the duties as soon as his health improved. He had for many years suffered from malaria, which frequently incapacitated him. His condition deteriorated, and on March 27, 1912, he died. With better health, however, he might have left an even more remarkable record.

This article has explored some of the contributions John Arbuckle made to building the American economy. His innovations in packaging and marketing coffee and sugar marked a significant change in the retail food market. This was more than a simple technological improvement; it was a reordering of the market. It changed not only the production process, but also the way the product was distributed and sold.

Arbuckle's competitive struggles with the established market system also demonstrate how the entrepreneur can change the existing order. Henry O. Havemeyer, through his American Sugar Trust, was able to control competition in the older order, but he lost to Arbuckle because of the innovations Arbuckle brought to the competition. The career of John Arbuckle is more than the story of an entrepreneur; it is a demonstration of the process of change in the market caused by entrepreneurship.

Arbuckle's humanitarian endeavors contained the same type of innovative activity as his commercial enterprises. Little attention is paid to the importance of the entrepreneur in providing humanitarian services. It is assumed that the entrepreneur is motivated by personal gain, and, therefore, the entrepreneurial process is not important in providing humanitarian services. Arbuckle's efforts would suggest that improvements in humanitarian services can benefit from the entrepreneurial process. It may well be that improvements in humanitarian activities require the same type of innovativeness and new combinations for improved efficiency that economic growth requires. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Roger and Me and Free Enterprise

by James L. Doti

Film-maker Michael Moore's very funny satire, *Roger and Me*, has opened to almost universal critical praise and audience approval. Unfortunately, the fact that audiences across the country are largely accepting Michael Moore's message hook, line, and sinker is sobering, especially when one considers the distorted view of free enterprise depicted in this cleverly constructed documentary.

Roger and Me documents the impact of General Motors' decision to relocate automobile production facilities from Flint, Michigan, to lower-cost operations in Mexico. The film's message is that relocating assembly plants outside the U.S. had a devastating socio-economic impact on the people of Flint. The film's villain is the free market system that allows G.M.'s supposedly callous CEO, Roger Smith, to undertake reprehensible acts while holding himself and his company above accepted norms of decent behavior.

It should not be surprising that Michael Moore takes a good deal of artistic license in documenting the facts. It isn't mentioned, for example, that while some jobs were lost in Flint, the majority of workers living there are still G.M. employees. Nor does Moore document the fact that G.M. has poured billions of dollars into building new and modernizing existing U.S. assembly plants. A more serious problem that calls into question Moore's ethical standards and reliability as a journalist is his scrambling the sequence of events depicted in the film to support a point of view rather than a sense of reality.

For the sake of argument, let us overlook these problems and accept for the moment Moore's cinematic view—that the unbridled use of free market capitalism led to the demise of a once healthy and vibrant local economy. When such a view is taken, the logical follow-up question is what sort of policy Moore would propose as an alternative.

I suppose most morally conscious people would advocate the passage of laws that prevent G.M. or any other domestic automobile manufacturer from closing U.S. assembly plants, especially when the closures take place because auto-making facilities are being moved outside the country. But laws preventing plant closures would place G.M. and other domestic auto makers at a competitive disadvantage against foreign competitors who presumably can locate their auto-making facilities wherever production costs are lowest. Enlightened policy-makers are therefore likely to argue that protective trade barriers are necessary as a concomitant policy. Such barriers, so the argument goes, would prevent foreign auto makers who produce at a lower cost from having an "unfair" advantage over U.S. firms.

The implicit assumption here is that laws can be enacted to prevent the cruelties documented in *Roger and Me*. Many public crusaders undoubtedly believe that jobs as well as cities can be protected by legislation designed to serve national interests.

Before accepting this assumption, let's consider the cost of such well-intentioned public policy. First of all, the compassionate feelings of Michael Moore and other public crusaders evidently extend only to U.S. workers. The fact that G.M. created jobs for Mexican workers and improved their earnings potential is considered only in a negative light. G.M.'s recent decision to build an

Dr. Doti is a professor of economics at Chapman College, Orange, California.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WARNER STUDIOS

Michael Moore

assembly plant in Hungary would probably also be attacked by these same humanitarians. It is ironic that compassion is often constrained by nationalistic fervor while the forces of free markets work against such discrimination.

But even if justice and morality extend only to the U.S. border, keeping Flint, Michigan, alive and well by means of laws and regulations will also work against our fellow citizens. Consider, for example, the higher prices that consumers will have to pay for automobiles as a result of steeper tariffs and quotas that are now necessary to keep domestic auto makers in business.

The higher prices represent a subsidy on the part of consumers to maintain inefficient production facilities. While the jobs saved in Flint might bear witness to what a benevolent government can do, the true costs are spread thinly among many and are difficult to observe. In the aggregate the costs are significant but, at an individual level, the marginally higher price a person pays for automobiles is not the stuff upon which entertaining documentaries are born.

A diehard do-gooder might still argue that jobs were saved in Flint. Perhaps, but only for a while. Eventually, consumers get fed up with paying the bill for inefficiency. Case in point: the consumer revolution taking place in Eastern Europe and the Soviet Union. The lure of goods available in a global environment is seductive. When the disparity widens between what consumers get at home versus what is available in world markets, pressure is brought on governments to end their protectionist policies. And when governments end their protection, firms that barely survived in a regulated environment will suffer a slow and painful death when subject to the rigors of competition.

The visible impact of free market forces might not always be kind and gentle. In serving the needs and desires of consumers, the "invisible hand" of free enterprise forces producers to respond. When they do, they profit; when they don't, they fail. The process isn't necessarily pretty, but it works amazingly well as long as governments don't get in the way.

There is a scene in *Roger and Me* reminiscent of *The Grapes of Wrath*, where Ronald Reagan visits Flint and suggests to unemployed auto workers that jobs might be found in Texas. Reagan's inability to come up with a more palatable and action-oriented alternative strikes audiences as humorous. We should be thankful that he didn't go back to the White House and draft a jobs bill. □

F E E

F•E•E / 1990

Summer Seminars

July 9-14

August 6-11

Join us in Irvington to explore the philosophy of freedom. Our 5-acre facilities in suburban Westchester County provide the ideal setting for intellectual pursuit. For full details and applications, write or telephone Mrs. Dorothy Reale, Foundation for Economic Education, (914) 591-7230.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Examined Life

by John Chamberlain

Here's a funny one. After carrying his readers to the very end of his book of meditations called *The Examined Life*, philosopher Robert Nozick asks that "no reader summarize this book's contents or present slogans or catchwords from it." He warns that the trickled-down philosophy "is not worth following."

But how in Heaven's name can a reviewer talk about a book of six-or-eight-sided summaries without doing some summarizing of his own? It is indeed part of a necessary summary to say that the book is published by Simon and Schuster in 303 pages for $21.95. Nozick disobeys his own injunction in section after section. He takes on capitalists, Communists, Christians, and nationalists seriatim. He does this in a most even-handed way. No one can say that he is not fair. In a beautiful paragraph he sets forth the capitalist ideal of free and voluntary exchange. Then, back-pedalling with skill, he comes in with a negative summary of the nastier items that are attributed to capitalism—items such as "international predation, companies bribing governments abroad or at home for special privileges which enable them to avoid competition." This, says Nozick, "is the underside of the capitalist ideal as it actually operates. It is not the whole of the story . . . but it is part of that story."

Similarly with the Communist, Christian, and nationalist ideals. There are undersides here, too. Ideally, Communism should be operating in a society without class distinctions. Christianity should stress loving one's enemy, with no violence permitted. But violence is nonetheless part of the story here, as it is in the case of nationalism. If Nozick wants to deny summarization rights to everyone save himself, that is his business. But he believes in "the problem of evil," and he can't resist engaging in eloquent bull sessions about the nature of a God Who, though He is presumably omniscient and omni-competent, allows evil to be. The reader must think he is back in sophomore class when he hears Nozick say that free will is good because it provokes people to think about goodness.

Something perverse in bull session logic leads to asking crazy questions, such as "suppose God created beings with free will in order to make them unpredictable, so that He could follow their story with interest and surprise." This might be called "God's television serial." Query: could an omniscient Being be reduced to such a soap opera level of entertainment without risking the laughter of all the gods on a pagan Olympus or in a Christian Heaven?

Nozick's chapter on "love's bond" is a lovely bit of writing. It is about the making of new entities in the world consisting of romantic couples who form "we" attachments. A "we" happens when love means that two reflective persons can walk down the streets separately without thinking of "trading up" for better partners.

"Each person," says Nozick, "in a romantic *we* wants to possess the other completely yet each also needs the other to be an independent and nonsubservient person."

"Seeing the other with us and made happy through our love," says Nozick, "we become happier with ourselves."

The difference between common friendships and the making of a *we* is tenuous when "trading up" is a possibility, "but between lovers, it never becomes this complicated explicitly." Lovers should not be expected to solve paradoxes.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nozick would view with disapproval any effort to undercut his bringing older books into the picture. Yet much of what he has to say about such topics as love, marriage, prayer, happiness, death, and crime and punishment was said by followers of St. Francis of Assisi years—and even centuries—ago.

Kahlil Gibran summarized the Franciscan points in his poetic *The Prophet* of the Twenties and Thirties. Gibran was a Lebanese who could be both poetic and succinct. *The Prophet* is still in print (I found a good copy at the Barnes and Noble bookstore on New York's Fifth Avenue, and was informed that the book had sold a total of four million copies).

I found much of Nozick's book to be blurry and vague. The invocation of a few great names (Rilke, Wallace Stevens, etc.), and the dependence on a many-sided matrix, didn't help. Nozick piles abstractions upon abstractions in long solid pages that seldom refer to anything concrete. For myself, reality, a favorite word with Nozick, demands a good deal more. □

A CALL TO CIVIC SERVICE: NATIONAL SERVICE FOR COUNTRY AND COMMUNITY

by Charles C. Moskos

The Free Press, Front & Brown Streets, Riverside, NJ 08375 • 1988
224 pages • $22.95 cloth

Reviewed by Doug Bandow

One of the first bills introduced in the Senate when Congress reconvened in 1989 was the "Citizenship and National Service Act of 1989." This legislation, co-sponsored by Senators Sam Nunn and Charles Robb, among others, would create a Federal Citizens Corps to enlist 800,000 or more young people to spend a year or two doing good. President George Bush's largely private Youth Engaged in Service initiative pales in comparison.

The notion of national service has been around for a long time, at least since 1887 when Edward Bellamy proposed conscripting an "industrial army" for public projects. William James picked up the theme in 1910, urging that the nation's "gilded youth" be drafted in what he termed the "moral equivalent of war." Among the concept's most articulate proponents in recent years has been sociologist Charles Moskos, intellectual adviser to Senator Nunn and other members of the Democratic Leadership Council (DLC), which released its own book on the subject, and author of *A Call to Civic Service.*

Moskos, a long-time critic of the All-Volunteer Force's reliance on market incentives to fill its ranks, makes as good a case as is possible for national service. In his view America has been paying too much attention to individual freedom and entitlements and too little to corresponding social responsibilities; he argues that national service would promote a "spirit of civic mindedness" that is presently lacking.

Moskos, whose proposal closely resembles the Nunn/DLC proposal, wants to involve upwards of one million young people in fulfilling "tasks that neither the marketplace nor government can provide," including day care, tutoring, health care, and conservation work. He would establish a Corporation for National Youth Service, pay participants $100 a week, cover room and board, and provide extensive educational assistance to people who finish the program. Existing student loans and other educational benefits would be terminated. This, indeed, is the key to his proposal: Federal tuition aid, like the post-World War II G.I. Bill, would be the "nation's way of expressing its gratitude for those" who enlisted for civilian as well as military service.

Moskos also promotes his plan as a means of improving the volunteer military, which, he believes, is incapable of delivering "a socially representative force." He would set up a two-track system involving "professional soldiers"—essentially today's volunteers—and "citizen soldiers," who would serve for shorter terms and be paid significantly lower wages but would receive expanded G.I. Bill benefits. This approach, he argues, would allow the armed services to "reach the largely untapped pool of talented and upwardly mobile youth who would find a temporary diversion from the world of work or school tolerable, and perhaps even welcome."

There are several problems with *A Call to Civic Service*, as well as the other dozen proposals for national service now circulating on Capitol Hill. The first is the issue of entitlements. Americans *have* developed an indefensible entitlement ethic—what justification is there for forcing lower-income taxpayers to pay for middle-class college graduates to attend law or business school? The solution, however, is not to create a new entitle-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ment, payable if you do a job that Uncle Sam happens to approve of, but simply to end the subsidies.

Of course, the proposal to end student financial aid never comes up in Washington, but what justification is there for this bit of middle-class welfare? On average, a college degree increases a graduate's lifetime earnings by $640,000. Why shouldn't he devote part of that return to cover his school expenses?

Then there's the curious notion in this book—and, indeed, in virtually every advocacy piece on behalf of national service—that there are an enormous number of unmet needs to be filled through a national service program. Moskos, for instance, cites estimates of 3.5 million tasks presently left undone. But as long as human wants are unlimited, the real number of unfulfilled jobs is infinite. Since labor is not a free resource, most such "needs" are not worth meeting. We're all better off if we let the pre-med student graduate and go on to get his M.D. instead of making him (or paying him to) spend a year picking up cigarette butts in a local park.

And simply erroneous is Moskos' oft-repeated contention that the All-Volunteer Force is a poor man's military. In 1988, 95 percent of new recruits had high school degrees, compared to just 75 percent of civilian youth; enlistees also did far better on standardized tests than their non-service counterparts. Even volunteers in the army, which traditionally has had the most recruiting difficulties, are well above average and have been for years. Observes Sue Berryman in *Who Serves? The Persistent Myth of the Underclass Army*, a short but fact-filled book on the question of social representativeness in the armed services: "even in 1979 [one of the military's worst recruiting years] the younger members of the enlisted force by no means came from the most marginal families or from youth with the most marginal attainments, aspirations, or work attitudes."

Finally, why do we need a *national* service program to promote volunteerism? America would, in fact, benefit from a new "spirit of civic mindedness," in Moskos' words. But there is no lack of opportunities for people to serve today: private organizations like the Christ House medical facility for the homeless in Washington, the Our Daily Bread soup kitchen in Baltimore, the Community Service Network in San Diego, and any number of libraries, nursing homes, hospitals, parks, and other institutions across America welcome volunteers. The Commission of the States has organized the Campus Compact, which promotes community service at 150 different educational institutions; the Campus Outreach Opportunity League was created by students in 1984 and coordinates activities in 450 colleges and 200 other organizations. Ninety-two million Americans now give time to some volunteer group, and the number has been growing steadily throughout the past decade.

Moskos and other supporters of national service have looked out across America and found it wanting: people, especially young people, are greedy, frivolous, selfish, lazy, irresponsible, and so on. Therefore, someone—namely the public-spirited proponents of national service—must make everyone else change their ways. In the "kinder, gentler" U.S. such a system might not be quite as odious as China's once widely admired program of youth service—recently reestablished in an attempt to stamp out "bourgeois liberal" ideas—but it would still do violence to a republican order based on individual liberty and limited government.

Moreover, service, to be meaningful, must be voluntary, stemming from genuine feelings of charity and concern for others. Compulsory compassion is an obvious oxymoron. But even Moskos' promise of financial reward for spending a year cleaning bed pans would corrupt the concept of service. High school graduates would then be more likely to sign up to collect the generous benefits, equivalent to more than $17,500 after taxes, than out of a sense of moral obligation. "Service" would become just another job.

Moskos rightly criticizes a civic ethic grown selfish and cold. But we need to generate a renewed commitment to service from the ground up, from the family, churches, and community organizations, not impose it from the top down, especially from Capitol Hill. The notion of people voluntarily helping one another is far too important to entrust to government. We need more individual service, not a program of national service. □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Plunder: Misgovernment in Washington, *forthcoming from Transaction Books. While a Special Assistant to President Reagan, he worked with the President's Military Manpower Task Force.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

Where have you been? If you've just discovered THE FREEMAN and have found some helpful ideas, you may want to see our studies regularly. If so, just use the form below to reserve your place on our mailing list. (Any individual in the United States is added at his request. For foreign delivery, extra mailing costs require a charge of $15.00 a year.)

Where are you now? If you're already on the mailing list, but have a new address, please let us know of the change to minimize any delays in delivery.

.....

Sorry, this is not a mailing card: please enclose in a stamped envelope.

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Telephone: (914) 591-7230

THE FREEMAN
IDEAS ON LIBERTY

☐ Please add my name to receive THE FREEMAN, a monthly study journal of free market, private property, limited government ideas and ideals; and the newsletter, NOTES FROM FEE.

☐ Enclosed is a donation of $_____ to help in The Foundation's work.

☐ Please change my address, as follows.

Name (Please print)

Street

City State

Zip Code

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"The true test of civilization is , not the census, nor the size of cities, nor the crops—no, but the kind of man the country produces."

—RALPH WALDO EMERSON
"Civilization"

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U.S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED